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Chapter 1
Gazprom – Joint Stock Company

Total number of Gazprom Group personnel: 459.5 thousand people
State-controlled stake: over 50% of the shares
Dividends for 2013 (as recommended): RUB 7.2 per share

What is Gazprom?
Open Joint Stock Company (OAO) Gazprom is a global energy company focused on natural gas, gas condensate and oil exploration, production, transportation, storage, processing and marketing (including gas marketing as a vehicle fuel) as well as thermal and electric power generation and sales.

OAO Gazprom is the successor of the proprietary rights and obligations of State Gas Concern Gazprom, including its rights to use land, subsurface reserves, natural resources as well as rights and commitments under the agreements concluded by the Concern. Gazprom holds the world’s richest natural gas reserves. Its share in the global and Russian gas reserves totals 17% and 72% respectively.
Gazprom owns the gas trunklines tied together into the Unified Gas Supply System (UGSS) of Russia.

In accordance with the Russian Federation President’s Decree of November 5, 1992 the Company is vested with the obligations as follows:

- providing reliable gas supply to consumers in the Russian Federation;
- exporting gas under interstate and inter-governmental agreements;
- pursuing an integrated sci-tech and investment policy with regard to the UGSS upgrade and development;
- building and financing high pressure gas branches in order to gasify rural areas;
- exercising control over the UGSS;
- providing other producers with access to the national gas transmission system.

When was OAO Gazprom founded?
On February 17, 1993 State Gas Concern Gazprom was transformed into Russian Joint Stock Company (RAO) Gazprom pursuant to the Russian Federation Government’s Directive in compliance with the Russian Federation President’s Decree of November 5, 1992. RAO Gazprom was reincorporated into an open joint stock company in 1998.

What companies is Gazprom Group comprised of?
As a vertically integrated energy business, Gazprom Group is comprised of the parent company – OAO Gazprom – and its subsidiaries engaged in gas, oil and other hydrocarbons production, transportation, processing and marketing, underground gas storage, thermal and electric power generation and sales as well as other activities including pipeline system monitoring, oil and gas well drilling, equipment supply, R&D, information processing and banking services.

Exploration and production. There are more than 20 subsidiary companies engaged in exploration and development of hydrocarbon fields.

Transmission of natural gas via gas trunklines in Russia, Belarus and Armenia is vested in 21 subsidiary companies. Seasonal and peak gas demand is met with the use of 22 underground gas storages located in the Russian Federation and operated by OOO Gazprom UGS, three underground gas storage facilities in Belarus and one underground storage facility in Armenia.

Gas, gas condensate and oil are processed by six gas and condensate processing plants of OAO Gazprom as well as companies of OAO Gazprom Neft and OAO Gazprom Neftekhim Salavat.

Marketing and gas distribution. Natural gas is sold in the domestic market primarily by OOO Gazprom Mezhregiongaz through several dozens of Russian regional gas marketing companies and their affiliates.

Since the late 1990s Gazprom has been acquiring stakes in gas distribution companies that own and operate medium and low pressure gas transmission networks used for gas deliveries to ultimate consumers. These assets are managed by OAO Gazprom Gazoraspredeleniye.

Gazprom’s products are exported via its wholly owned subsidiary OOO Gazprom Export.

Oil. OAO Gazprom Neft is the mainstay of Gazprom’s oil business. The company comprises over 70 oil production, refining and marketing businesses in Russia as well as countries within and beyond the former Soviet Union (FSU).

Power industry. Gazprom owns four prominent generating companies in Russia – OAO Mosenergo, OAO TGC-1, OAO OGK-2 and OAO MOEK (consolidated on the books of a specialized subsidiary company – OAO Gazprom Energoholding). Electric power is supplied within Gazprom Group by a specialized company – OAO Mezhregionenergosbyt. Gazprom Group’s power supply networks of low and medium voltage are operated by OOO Gazprom Energo.
Ancillary activities. Gazprom Group comprises structural units performing activities that are ancillary to the core business. Such activities include repair, upgrade and monitoring of the Unified Gas Supply System; process communications and R&D.

Is Gazprom’s structure optimal or should it be improved?
Any large corporate structure continuously changes depending on the development logic of a company. Gazprom is not an exception.

The corporate structure of OAO Gazprom has undergone reforms for improvement purposes.

As part of Phase 1, the parent company’s management techniques, regulatory procedures and budgeting system were improved.

Phase 2 was aimed at enhancing the efficiency of OAO Gazprom as a vertically integrated company and streamlining the core business management structure in its subsidiaries. In order to pursue these objectives, individual activities were concentrated within specialized wholly owned subsidiaries of OAO Gazprom.

The restructuring helped the Company unbundle cash flows in production, transmission, processing, underground storage and marketing of gas and liquid hydrocarbons as well as to significantly increase the transparency of costs by types of activities.

In furtherance of the corporate governance system improvement aimed at the Company’s structural transparency and OAO Gazprom’s visual identity both in Russia and abroad, basic wording principles for subsidiary names were developed. These principles stipulate that a subsidiary’s name contains the parent company’s name – Gazprom.

How many people are employed by Gazprom Group?
As of late December 2013 the total number of Gazprom Group’s personnel amounted to 459.5 thousand people.

How was OAO Gazprom privatized?
RAO Gazprom (since 1998 – OAO Gazprom) was privatized fully in line with the Russian privatization laws as well as the Decrees and Directives of the Russian President, and the Resolutions of the Council of Ministers – the Government of Russia.

The Decree to transform Concern Gazprom into a joint stock company was addressed by the Presidium of the Russian Supreme Council on October 26, 1992. At the time RAO Gazprom was founded, 100% of the Company’s shares were held by the Russian Federation.

As a result of the stock sale between 1993 and 1995, 41% of the shares remained under the state ownership, 10% were acquired by Gazprom in exchange for privatization vouchers, 15% were acquired by the Company’s current and former employees in exchange for vouchers (at least 50% payment) as well as for cash, 32.9% were acquired by residents of 60 Russian regions in exchange for vouchers and 1.1% were handed over to OAO Rosgazifikatsiya. A total of 8.3 million privatization vouchers and around RUB 17 billion were paid for Gazprom’s shares.
Gazprom in Questions and Answers

1 million 30 thousand Russian citizens became the Company’s shareholders.

What are the rights of Gazprom’s shareholders?
Just like shareholders of other joint stock companies, Gazprom’s shareholders are basically entitled to:

- participate in the General Shareholders Meeting with a voting right on all issues within the General Shareholders Meeting competence;
- receive dividends.

A 2% ownership stake enables the shareholder or a group of the Company’s shareholders to nominate candidates for the Gazprom Board of Directors and Audit Commission as well as to propose items to be included in a shareholders meeting agenda. The shareholder or the group of shareholders possessing a 10% ownership stake may call for an extraordinary shareholders meeting of Gazprom to be summoned.

In order to efficiently protect the rights and interests of its shareholders, Gazprom was one of the first Russian companies to adopt the Code of Corporate Governance (Conduct) in 2002. The document sets out the basic principles and mechanisms enabling the shareholders to exercise their rights as well as creating conditions for the Board of Directors to efficiently control the activities of Gazprom’s executive bodies, i.e. the Management Committee and the Management Committee Chairman.

In addition to the Code requirement for corporate data disclosure to the shareholders, the Board of Directors adopted OAO Gazprom Provision on Information Disclosure.

Does the Company provide financial support to its shareholders?
The Company does not provide any direct financial support to its shareholders.

How is OAO Gazprom Management Committee formed?
The Chairman and the Members of the Company’s Management Committee are elected for a 5 year term by the Board of Directors entitled to early termination of their powers.

How is the size of dividends payable on OAO Gazprom shares determined?
The dividend size depends on OAO Gazprom’s net profit calculated under the Russian accounting standards in compliance with the Russian laws and regulations. The net profit is determined by the Company’s operating and financial results.

OAO Gazprom Dividend Policy was approved by the Board of Directors on October 27, 2010.

The Dividend Policy sets out the following procedure for the net profit distribution in a reporting period.

Under the Company’s Articles of Association a part of the net profit is used to form the reserve fund until the latter reaches the size specified in the Articles (7.3% of the authorized capital).

A 10% share of the net profit is reserved for dividend payouts.

40% to 75% of the net profit is reserved for the Company’s investment purposes.

The remaining share of the net profit is divided into equal parts for paying out dividends and forming a reserve for investment purposes.

The net profit intended for dividend payouts may be adjusted for the amount of Gazprom’s financial investments revaluation. This enables the Company to allocate the profit secured by the real cash flow for dividend payouts and investment purposes.
The Dividend Policy contains a provision on the dividend payouts (from 17.5% to 35% of the net profit provided that the reserve fund is formed).

The decision on the payout of annual dividends, including the dividend size and payout method, is adopted by the Shareholders Meeting on the Board of Directors’ recommendation. The size of annual dividends should not exceed the amount recommended by the Board of Directors.

In May 2014 the Board of Directors recommended that the annual General Shareholders Meeting approve the proposal to pay out RUB 7.2 per share in annual dividends based on Gazprom’s operating results for 2013.

Are there any preferred shares issued by Gazprom?
The share emission prospectus did not originally provide for any preferred shares issue. All the shares of Gazprom are ordinary ones.

Who performs independent audit of OAO Gazprom?
An independent auditor of OAO Gazprom is appointed through an annual competitive procedure. The procedure results are considered by the Board of Directors of Gazprom, and the auditor’s candidacy is approved at the annual General Shareholders Meeting.

In May 2014 the Gazprom Board of Directors recommended that the annual General Shareholders Meeting approve ZAO PricewaterhouseCoopers Audit as the Company’s auditor for 2014.

OAO Gazprom and ZAO PricewaterhouseCoopers Audit started cooperating in 1995. ZAO PricewaterhouseCoopers Audit performs:

- audit of OAO Gazprom (parent company) Annual Accounting Statements prepared in accordance with the applicable Russian laws and regulations;
- audit of Gazprom Group Annual Consolidated Accounting Statements prepared in accordance with the applicable Russian laws and regulations;
- audit of Gazprom Group Annual Consolidated Accounting Statements prepared in accordance with the International Financial Reporting Standards.

Who owns Gazprom shares?
The number of Gazprom’s shareholders in Russia and abroad exceeds five hundred thousand. The state is the largest shareholder of Gazprom, owning over 50% of shares.

Where can one buy (sell) OAO Gazprom shares?
OAO Gazprom shares can be bought from their legal holder. Shares can be acquired under a purchase and sale agreement drawn up as per the applicable legislation with subsequent re-registration of proprietary rights in a

### OAO Gazprom share capital structure as of December 31, 2013, %

<table>
<thead>
<tr>
<th>Share</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Russian Federation represented by the Federal Agency for State Property Management</td>
<td>38.37</td>
</tr>
<tr>
<td>OAO Rosneftegaz</td>
<td>10.97</td>
</tr>
<tr>
<td>OAO Rosgazifikatsiya</td>
<td>0.89</td>
</tr>
<tr>
<td>ADR holders</td>
<td>25.78</td>
</tr>
<tr>
<td>Other registered persons and entities</td>
<td>23.99</td>
</tr>
</tbody>
</table>
register keeper’s office (depository) at the legal holder’s banking account location. The Company’s shares can also be bought or sold at Gazprombank offices.

Additionally, one can buy or sell Gazprom shares through a professional stock exchange broker. As a rule, such services are offered by investment companies and commercial banks.

What does ADR stand for?
ADR is an American Depositary Receipt publicly traded mostly in foreign stock markets and issued against shares of a non-US company deposited with a US bank. ADR is an instrument of international stock trade. ADRs for Gazprom’s shares are issued to ensure the circulation of the Company’s shares by means of the foreign stock markets infrastructure. Before April 18, 2006 one ADR represented 10 shares of OAO Gazprom. Subsequently, the number of OAO Gazprom ordinary shares per an ADR was reduced from ten to four. Since April 18, 2006 it has been possible to convert OAO Gazprom ordinary shares into ADRs and vice versa.

Starting from April 21, 2011 the number of OAO Gazprom ordinary shares per an ADR was reduced from four to two. Previously outstanding shares were automatically converted according to the new ratio. This step allowed to open up access to Gazprom’s ADRs for a wider range of investors and to increase the liquidity of receipts.

At present, Gazprom’s ADRs are listed on the London Stock Exchange, traded in the US over-the-counter stock market and on European stock exchanges, namely the Berlin and Frankfurt Stock Exchanges. Starting with February 2014 ADRs have also been traded at the Moscow Exchange. As at late 2013, 25.78% of Gazprom’s shares were floating in the form of ADRs.

Is OAO Gazprom shareholder allowed to sell his/her shares to a foreigner?
Yes, he/she is. There are currently no legislative restrictions on foreign ownership of OAO Gazprom shares.

How can Gazprom shareholder convert his/her ordinary shares into ADRs?
OAO Gazprom ADR Program provides any shareholder with the opportunity to convert the Company’s shares into Gazprom’s ADRs. For this purpose the shares are to be deposited with a local custodian bank (currently Gazprombank), and then the Bank of New York Mellon (ADR Program depository bank) issues a relevant amount of ADRs to the shareholder’s account opened with a foreign bank. Since this depositing procedure requires a thorough understanding of the entire process (including respective paperwork, fees and timing), it is more expedient to vest the conversion operation in a securities market professional – a brokerage company or a bank that will take all necessary actions at the shareholder’s request.

At the same time, it is noteworthy that upon receipt of an ADR the shareholder becomes the owner of a foreign security and is liable to the Russian Federation currency laws.

Can a shareholder of Gazprom sell shares in a foreign market?
Gazprom’s shares are traded as ADRs in foreign markets. Therefore, in order to be sold in a foreign market, shares are to be converted into ADRs first. It is reasonable to vest the conversion operation in a professional equity market player – a brokerage company or a bank that, at the shareholder’s request, will take all necessary actions.
Chapter 2

Strategy

The strategic goal of OAO Gazprom is leadership among global energy companies.

What is the strategic goal of OAO Gazprom?
The strategic goal of OAO Gazprom is becoming a leader among global energy companies by conquering new markets, diversifying business activities and ensuring reliable supplies.

At the same time, OAO Gazprom views its mission in maximally efficient and balanced supply of consumers with natural gas, other energy resources and their derivatives.

What principles does Gazprom’s strategy hinge on?
Gazprom’s strategy hinges on the following operating principles:

- enhancing the efficiency of its major business;
- diversifying activities through high-efficiency projects for high value added products;

In December 2013 Gazprom launched oil production from Prirazlomnoye field.
Why is business diversification a strategic priority for Gazprom?
The Company’s business diversification implies expanding the areas of operations and the range of final products, conquering new markets and developing logistics schemes. All of the above are the prerequisites for global companies to enjoy their strategic and competitive advantages.

“The strategy of Gazprom is top-down integration in natural gas and diversification in related and high value added products. The present-day structure of the global hydrocarbon business is dominated by universal oil and gas companies. Concentrating the capital and creating an integrated infrastructure result in lower overall costs and greater profit growth,” noted Alexey Miller, Chairman of the Gazprom Management Committee.

What are the strategic projects of Gazprom?
The strategic challenges of OAO Gazprom are met through the execution of the following promising projects:

Developing Yamal Peninsula resources
The Yamal Peninsula is a strategic gas production region for the Company. It is one of the most promising oil and gas bearing provinces in Western Siberia. The Yamal resources development is the largest energy project in the contemporary history of Russia, unparalleled in terms of sophistication. The project is similar to the development of Western Siberian fields in the 1970s in terms of its scale and significance. It lays the foundation required to boost gas production in Russia. Commercial development of the Yamal fields will make it possible to build up regional gas production to 310–360 billion m³ a year by 2030.

There are 32 gas, oil, gas and condensate fields discovered onshore and offshore Yamal. Explored reserves of the region’s largest fields, i.e. Bovanenkovskoye, Kharasaveyskoye, Severo-Tambeyskoye, Kruzenshternskoye and Malyginskoye exceed 8 trillion m³ of gas with Gazprom Group as
their licensed operator. Bovanenkovo, Yamal's largest gas field, where production started in 2012, will be developed at the first phase of the Yamal megaproject.

**Eastern Gas Program**

Gas resources available in Eastern Siberia and the Far East are sufficient for arranging gas export and meeting long-term needs of Eastern Russia where initial gas resources in place total 52.4 trillion m$^3$ onshore and 14.9 trillion m$^3$ offshore.

In September 2007 the Russian Industry and Energy Ministry approved the Development Program for an integrated gas production, transmission and supply system in Eastern Siberia and the Far East, taking into account potential gas exports to China and other Asia-Pacific countries (Eastern Gas Program). The Russian Government entrusted OAO Gazprom to act as the Program execution coordinator. The Company started implementing the Program's provisions prior to its official approval.

New gas production centers have already been set up in Eastern Russia, namely the Sakhalin Region and the Kamchatka Territory, a gas production center is being shaped in the Republic of Sakha (Yakutia), the Irkutsk Region and the Krasnoyarsk Territory are next in turn.

The primary development principles for a gas supply system in Eastern Russia are as follows:

- giving priority to meeting Russian consumers’ demand for gas and maintaining sustainable gas supply throughout Russia by expanding the Unified Gas Supply System (UGSS) eastwards;
- shaping a natural gas market on the basis of competitive pricing among various fuels.

The Sakhalin Island shelf was identified as most suitable for the startup of gas production and the arrangement of gas supply to consumers in Russia’s Far East. Gazprom participates in the Sakhalin II project as a major shareholder. The first Russian LNG plant was constructed as part of the project and Russian LNG export commenced. In 2010 the plant not only reached its design capacity (9.6 million t of LNG per year), but also surpassed it by producing more than 10 million t of LNG.

Sakhalin III is another large-scale project of Gazprom. Here the Company holds licenses for the Kirinsky, Vostochno-Odoptinsky and Ayashsky blocks as well as for the Kirinskoye field, the first gas from which was produced in 2013.

In September 2010 the Company discovered a new field within the Kirinsky block – the Yuzhno-Kirinskoye field containing 636.6 billion m$^3$ of natural gas. In autumn 2011 the Mynginskoye field containing 19.9 billion m$^3$ of gas reserves was discovered there.

Besides, Gazprom constructed the first startup complex of the Sakhalin – Khabarovsk – Vladivostok gas transmission system (GTS) with a view to develop gas supply to the Khabarovsk Territory and the Sakhalin Region and to arrange gas supply to the Primorye Territory. The annual throughput of the first startup complex totals 6 billion m$^3$. In September 2011 consumers in Vladivostok received first gas.

In 2013 the Final Investment Decision was adopted for the LNG plant construction in Vladivostok with the annual capacity of 10 million t and the possibility for further extension. The project was named Vladivostok LNG.

In the Republic of Sakha (Yakutia) Gazprom operates in the Chayandinskoye field. In October 2012 the final investment decision was adopted for this project. Oil and gas production will start in 2014 and 2018, accordingly. Gazprom will construct the Power of Siberia gas transmission system in order to deliver gas from Yakutia and then from Irkutsk. Gas processing and helium production capacities will be created in the Amur Region.

The Chikanskoye field was put into pilot commercial operation in the Irkutsk Region in 2008. The Company
Gazprom in Questions and Answers

Developing gas resources and shaping a gas transmission system in Eastern Russia

tackles the issues related to the creation of gas transmission capacities to feed the cities of Sayansk, Angarsk and Irkutsk with natural gas. Moreover, Phase 1 construction of the gas pipeline to supply gas from the Bratskoye field to consumers in Bratsk was completed in 2007. In 2011 Gazprom became the license holder for the Kovyktinskoye field with the reserves of some 2.5 trillion m³ of gas.

Geological exploration is underway in the Krasnoyarsk Territory. For instance, a new field – Abakanskoye – was discovered in 2010, the Ilbokichskoye and Novo-Yudokonskoye fields – in 2012.

In the Kamchatka Territory Gazprom finished the pre-development of the Kshukskoye and Nizhne-Kvakchikskoye fields on the west coast of the Kamchatka Peninsula. The Sobolevo – Petropavlovsk-Kamchatsky gas trunkline has been constructed and gas supply to the Territory capital has been started. Gasification of settlements located along the Sobolevo – Petropavlovsk-Kamchatsky gas pipeline route is underway.

The fields of Eastern Russia feature complex gas composition, high helium content, oil rims and a high condensate factor. These features require
2. Strategy

A special approach to resources development in the Yakutia, Irkutsk and Krasnoyarsk centers as compared to Western Siberia. Here, it is necessary to fully utilize all components found in the produced gas. The point is not just to produce gas, but to set up a number of gas processing companies in Eastern Russia and export high value added products.

**Pipeline gas supply to China**

Forming large gas production centers in Eastern Siberia and the Far East, building high-capacity transmission corridors makes it possible to establish a new Russian gas export center geared to the Asian-Pacific region.

In spring 2014 Gazprom and China National Petroleum Corporation signed the contract for the Russian pipeline gas supply to China for 30 years. The contract became the biggest one in the entire history of Russian gas industry and unlocked a brand new market with a huge potential for Russian gas.

38 billion m$^3$ of Russian gas will be annually supplied from the Yakutia and Irkutsk gas production centers via the Power of Siberia gas transmission system.
Developing Russia’s Arctic shelf resources

Russia’s Arctic shelf is considered by OAO Gazprom as one of the most promising regions for discovering new hydrocarbon fields and developing the explored ones.

The initial aggregate hydrocarbon resources of the Russian continental shelf amount to nearly 100 billion t of fuel equivalent, 80% of which is gas. The bulk of hydrocarbon resources are concentrated in the Arctic seas, namely the Barents, Pechora and Kara Seas, with gas and condensate prevailing in the Barents and Kara Seas and oil – in the Pechora Sea.

Gazprom holds the development licenses for several Arctic fields, including Shtokman and Prirazlomnoye.

The Shtokman field is located in the central part of the Russian sector of the Barents Sea shelf. The explored reserves (C1 reserves) of the field amount to 3.9 trillion m³ of gas and 56.1 million t of gas condensate. The aggregate volume of production from the field may exceed 70 billion m³ a year. At present, the Investment Rationale is being adjusted in order to optimize the design solutions.

The project implementation will become a pivotal point to form a new gas production region on the Russian Arctic shelf.

On December 20, 2013 Gazprom started oil production from the Prirazlomnoye field in the Pechora Sea. It is Russia’s first project for the Arctic shelf resources development. The recoverable oil reserves of the field amount to 71.96 million t providing for the extraction of some 6 million t of oil per year.

The Prirazlomnaya offshore ice-resistant stationary platform secures every process operation in the field – oil drilling, production and storage, end product processing and loading. It is an unparalleled platform designed and constructed in Russia on Gazprom’s request. It is intended for operation under extreme environmental and climatic conditions, meets the most stringent safety requirements and can resist high ice loads.

On April 18, 2014 the first oil cargo of 70 thousand t was offloaded from the Prirazlomnoye field. The Mikhail Ulyanov and Kirill Lavrov super ice-class (Arc6) oil vessels secure oil deliveries from the field. These vessels were purposely built on Gazprom’s request for oil shipping from the field.

Gas transmission system development in Russia

The Bovanenkovo – Ukhta gas trunkline system is the first element of a multi-line gas transmission system intended to withdraw gas from the Yamal Peninsula fields and convey gas from the Bovanenkovo field to the UgSS. The system length will come to nearly 1,240 km. In 2012 the first gas pipeline string and two compressor stations were put onstream. In 2013 five more compressor stations were commissioned. At present, the construction of the second string is underway.

The Ukhta – Torzhok gas pipeline became a part of the gas transmission system to convey Yamal gas to the Gryazovets gas transmission hub in Northwestern Russia. The gas pipeline construction was launched in 2011. The gas pipeline section between Ukhta and Gryazovets was put onstream in 2012. In 2013 the construction of five compressor stations was completed.

The Gryazovets – Vyborg gas pipeline ensures extra gas supplies to Northwestern Russia and delivers gas to the Nord Stream gas pipeline. The Portovaya compressor station (CS) – the starting point of the Nord Stream gas pipeline, is a unique gas transmission facility having no domestic analogues by its capacity and working pressure.

The Pochinki – Gryazovets gas pipeline secures additional gas supplies to the Northwestern region and, inter alia, conveys gas to the Nord Stream gas pipeline
at the first stage. The gas pipeline can operate in the reverse flow mode, rerouting gas to the Central region. The gas pipeline’s linear part and four compressor stations are ready. They will ensure the fulfillment of transportation design conditions till 2020.

**The Northern Tyumen Regions (SRTO) – Torzhok gas pipeline** is 2,200 km long, enables to deliver more gas to consumers in Northwestern Russia and ensures export supplies via the Yamal – Europe gas pipeline. In 2006 the linear part of the gas pipeline was commissioned, in 2012 the three remaining compressor stations were completed.

**The Sakhalin – Khabarovsk – Vladivostok gas transmission system (GTS)** is a top priority project within the Eastern Gas Program. The project promotes gas supply to the Primorye and Khabarovsk Territories, the Sakhalin Region and creates conditions for gas export to consumers in Asia-Pacific countries. In September 2011 the first startup complex facilities of the GTS were put into operation, gas supplies to consumers in Vladivostok were launched.

**The Dzhubga – Lazarevskoye – Sochi gas pipeline** has been included into the Russian Government approved Program for Construction of Olympic Venues and Development of Sochi as a Mountain Climate Resort. The pipeline route runs under the Black Sea along the coastline to the Kudepsta gas distribution station located near Sochi. The gas pipeline was commissioned in June 2011.

**The Southern Corridor gas pipeline system** will make it possible to supply additional natural gas volumes to Russia’s central and southern regions as well as ensure uninterrupted gas supplies into the South Stream gas trunkline. It is planned to construct around 2,500 km of gas trunklines and 10 compressor stations within the project. The project will be completed before December 2019 and divided into two phases: 1. Western Part (Pisarevka CS – Russkaya CS, more than 800 km long); 2. Eastern Part (Pochinki CS – Russkaya CS, more than 1,600 km long). By now, the first phase of the project is being implemented.

**Liquefied natural gas**

Global gas consumption growth annually averages 2.2% with liquefied natural gas (LNG) being a primary growth driver.

LNG has become an integral part of the global gas trade and is currently classified as a key driver of the global market.

Liquefied gas deliveries are advantageous due to the market coverage opportunities irrespective of geographic location.

**OAO Gazprom implements a phased strategy to expand its presence in the LNG market. Gazprom’s LNG supply efficiently supplements pipeline supply and makes it possible to enter new gas markets.**

**Gazprom Group has been making efforts to enhance its positions in the LNG market since 2005 through spot trading and exchange transactions carried out by Gazprom Marketing & Trading. In August 2008 due to LNG trading and shipping expansion, this business was spun off into Gazprom Global LNG, a separate subsidiary registered in London. Moreover, Gazprom Marketing & Trading Singapore was established to perform trading operations in Asia-Pacific countries.**

The next phase of this strategy began in February 2009 when an LNG plant was put into operation as part of the Sakhalin II project. In April 2009 the first LNG carrier with Russian gas on board arrived in Japan. In 2010 the Sakhalin LNG plant not only reached its full capacity, but also exceeded it by producing over 10 million t of LNG. In 2013 the plant produced 10.8 million t of LNG.

Total LNG sales by Gazprom Group reached 8.9 million t (12 billion m³) from 2005 to 2013. In 2013 the Group’s companies delivered 24 LNG cargoes (around
1.4 million t or 1.9 billion m³) mostly to Japan, India, South Korea, China and Taiwan.

Gazprom aims to speed up new LNG projects intended to increase the Company’s share in the global gas market. These projects include Vladivostok LNG in the Primorye Territory and Baltic LNG in the Leningrad Region.

In February 2013 Gazprom adopted the final investment decision for the Vladivostok LNG project. The first process train will be put onstream in 2018, the second one – in 2020. The annual capacity of each train will amount to 5 million t. In future the LNG plant may be further expanded. The LNG target market is represented by the Asia-Pacific region.

In June 2013 Gazprom and the Leningrad Region Administration signed a Memorandum of Understanding and Cooperation in implementing an LNG plant construction project in the Region. The plant with the capacity of up to 10 million t a year is to be commissioned in 2018.

Developing and utilizing hydrocarbon resources in Central Asia

Uzbekistan. In 2002 OAO Gazprom and NHC Uzbekneftegaz entered into the Agreement on Strategic Cooperation stipulating OAO Gazprom participation in natural gas production projects in Uzbekistan under the production sharing agreement (PSA) terms. Since mid-2004 OAO Gazprom has been involved in restoring gas production in the Shakhpakhty field under the PSA terms. The amount of produced gas exceeded 2.4 billion m³ from August 2004 to January 2014.

In January 2006 OAO Gazprom and NHC Uzbekneftegaz signed the Agreement on the Basic Principles for Geological Exploration of Ustyurt Investment Blocks in the Republic of Uzbekistan with Subsequent Oil and Gas Field Development under the PSA Terms.


In the course of geological operations the Dzhel gas and condensate field was discovered in the Shakhpakhty block on June 22, 2009.

With due account of the positive results, the period of License validity for the Shakhpakhty investment block
was extended through to March 2019 in order to finish the ongoing geological studies.

**Kazakhstan.** In June 2002 OAO Gazprom and AO NK KazMunaiGaz set up on a par and registered in the Republic of Kazakhstan the TOO KazRosGaz joint venture engaged in natural gas purchasing, marketing and processing at the OOO Gazprom Dobycha Orenburg facilities.

In July 2006 the Kazakh and Russian Presidents signed the Joint Declaration to promote long-term cooperation in processing and marketing of natural gas from the Karachaganak field. On October 3, 2006 the Governments of Russia and Kazakhstan signed the Agreement of Cooperation on setting up a joint venture based on the Orenburg gas processing plant. In furtherance of the document, OAO Gazprom and AO NK KazMunaiGaz entered on June 1, 2007 into the Agreement on Basic Principles for Creation and Operation of Joint Venture Based on Orenburg Gas Processing Plant (Orenburg GPP). The parties also signed a long-term contract stipulating the purchase and processing of up to 16 billion m³ of Karachaganak gas every year. Processed gas is delivered to Kazakhstan and marketed under export contracts.

Represented by TsentrCaspneftegaz, a joint venture of OAO Gazprom and OAO LUKOIL, Russia cooperates with Kazakhstan within the Agreement on the Principles for Joint Hydrocarbon Resource Exploitation at the Tsentralnaya geological structure in the Caspian Sea. In 2008 OOO TsentrCaspneftegaz discovered at the Tsentralnaya geological structure a large oil, gas and condensate field with the aggregate recoverable reserves amounting to 101.4 million t of oil, 7.5 million t of gas condensate and 162.1 billion m³ of free and dissolved gas.

Pursuant to the Joint Statement by the Russian and Kazakh Presidents dated December 19, 2008 the work is underway to coordinate the draft versions of the Production Sharing Agreement and the constituent documents for a joint venture between OOO TsentrCaspneftegaz and AO NK KazMunaiGaz intended for the project operation within the said geological structure. The said documents were drawn up by OOO TsentrCaspneftegaz. Currently, the registration and incorporation documents have been signed for OOO Tsentralnaya Oil and Gas Company; the company has been registered with the tax authorities of the Russian Federation.

In September 2010 Russia and Kazakhstan entered into the intergovernmental Agreement on joint geological survey and exploration of the cross-border Imashevskoye gas and condensate field. Pursuant to the Agreement, OAO Gazprom was identified as the authorized company on behalf of Russia and AO NK KazMunaiGaz – on behalf of Kazakhstan.

In April 2011 OAO Gazprom and AO NK KazMunaiGaz identified TOO KazRosGaz as the single operator of the Agreement.

**Turkmenistan.** The relationship between Russia and Turkmenistan in the gas sector is based on the long-term bilateral Agreement of Cooperation in the Gas Industry signed in 2003 and effective for 25 years.

Within the scope of the Agreement OOO Gazprom Export (Gazprom subsidiary) and Turkmenistan’s national gas trader Turkmennenfetegaz concluded a long-term purchase and sale contract for Turkmen natural gas.

Turkmen gas is supplied via the Central Asia – Center transit gas pipeline system crossing Uzbekistan, Kazakhstan and Russia. Gazprom acts as the operator of Turkmen gas transit across Uzbekistan and Kazakhstan according to intergovernmental agreements.

The supplements and amendments to the long-term gas purchase and sale contract between OOO Gazprom Export and Turkmengaz State Concern were signed in December 2009. Paused due to an accident at the Central Asia – Center gas pipeline in Turkmenistan, Turkmen gas supplies were resumed in early 2010.

In January 2006 OAO Gazprom and the Government of the Kyrgyz Republic signed the Memorandum of Intent to establish a Russian-Kyrgyz joint venture in the oil and gas sector.

In May 2007 OAO Gazprom and the Government of the Kyrgyz Republic entered into the Agreement on Basic Principles for Geological Exploration. As part of the Agreement, Gazprom obtained two licenses for the Kugart and Eastern Mailu-Suu areas.

In July 2008 the parties endorsed the Phased Program for Geological Exploration in these areas between 2008 and 2011.

OAO Gazprom and the Government of the Kyrgyz Republic signed the Memorandum of Understanding to develop cooperation within the privatization of a part of the state-owned stake in OAO Kyrgyzgaz in October 2008.

In February 2011 OAO Gazprom and the Government of the Kyrgyz Republic signed two protocols on resumption and promotion of further cooperation (as part of the Agreement of May 14, 2007 and the Memorandum of October 8, 2008). Pursuant to the intergovernmental agreement between Kyrgyzstan and Russia, in April 2014 Gazprom and Kyrgyzgaz entered into the Purchase and Sale Agreement for a 100% stake of KyrgyzgazProm (wholly-owned subsidiary of OAO Kyrgyzgaz). The KyrgyzgazProm assets include over 700 km of gas trunklines, about 2,300 km of gas distribution pipelines as well as 266 gas distribution hubs.


In June 2008 OAO Gazprom and the Tajik Government signed the Agreement on General Principles for Geological Exploration of Oil and Gas Prospects in the Republic of Tajikistan (Rengan, Sargazon, Sarykamysh and West Shohambary). Currently, the drilling of the Shakhrinav-1p ultra-deep prospecting well has been completed and testing operations have been launched. In addition, Gazprom’s licenses for hydrocarbons exploration in the West Shohambary and Sarykamysh areas were extended.

Expanding Central Asia – Center (CAC) gas transmission system

The CAC gas pipeline system is nowadays the main transmission route for gas export from Turkmenistan, Uzbekistan and Kazakhstan.

For more than 30 years of operation the CAC system has far outlived its lifespan and requires substantial rehabilitation. In order to provide transmission capacities for Turkmen, Uzbek and Kazakh gas transit the participants of the Uzbekistan – Kazakhstan – Russia transmission system took steps to ensure the security of transmission and expand the CAC GTS as well as conclude mid-term contracts for gas transit via Uzbekistan and Kazakhstan.

The capacities of the CAC GTS nowadays enable to convey the total volume of purchased Central Asian gas.

Developing hydrocarbon fields abroad

In recent years Gazprom has been engaged in geological exploration offshore Vietnam. On September 11, 2000 Gazprom and Petrovietnam signed the Contract on geological exploration within block 112 of Vietnam’s continental shelf. The Vietgazprom joint operating company is responsible for the Contract implementation. For instance, the Bao Vang gas and condensate field was discovered in 2007 and the Bao Den field – in 2009 within block 112. At present, exploration activities are underway in block 112 under the Oil and Gas Contract in order to estimate the reserves contained there and define the commercial value of the fields.
On May 23, 2008 OAO Gazprom and Petrovietnam inked the Agreement on Further Cooperation. The Agreement stipulates geological exploration in blocks 129, 130, 131 and 132 on Vietnam’s shelf as well as deeper cooperation in developing gas and oil fields in Russia and third countries.

In April 2012 Gazprom and Petrovietnam signed the Agreement on Gazprom’s involvement in the development project for blocks 05.2 and 05.3 on Vietnam’s shelf in the South China Sea. In October 2013 Gazprom and Petrovietnam launched commercial gas production from the Moc Tinh and Hai Thach fields of licensed blocks 05.2 and 05.3, with recoverable gas and gas condensate reserves amounting to 35.9 billion m³ and 15.2 million t respectively.

In October 2005 OAO Gazprom obtained, as part of the Rafael Urdaneta tender procedure, two exploration and development licenses for natural gas fields within Urumaco I block in the Gulf of Venezuela.

In October 2011 Gazprom and state-run Petroleos de Venezuela S.A. (PdVSA) signed the Memorandum of Understanding which stipulated the creation of a joint venture and the development of the Robalo gas field in the Gulf of Venezuela.

Besides, OAO Gazprom Neft owns a 20% stake in OOO National Oil Consortium (NOC) established for projects implementation in Latin America. OAO LUKOIL and TNK-BP are other project participants holding a 20% stake each, Rosneft participates in the project with a 40% stake. NOC takes part in the Junin-6 oil block development project. For this purpose, NOC and PdVSA established the PetroMiranda joint venture, with NOC owning a 40% stake. In September 2012 first oil was produced from the Junin-6 block.

In December 2008 Gazprom won the tender for hydrocarbons exploration and production in the onshore El Assel area of the Berkine Basin in Algeria. Gazprom EP International B.V. acts as the operator of the said project. In 2010 hydrocarbon reserves were discovered in the Ordovician deposits. The well daily yielded nearly 60 thousand m³ of gas and 49.38 t of oil.

In September 2008 OAO Gazprom (represented by its subsidiary company Gazprom Latin America B.V.), Total and YPFB signed the Memorandum of
Gazprom in Questions and Answers

Understanding stipulating joint development of the Azero block in Bolivia. In exchange for participation in the project Total proposed stakes in its other Bolivian assets — Ipati and Aquio, where a new gas field Incahuasi had already been discovered.

On September 30, 2010 Gazprom Group and Total signed the Farmout Agreement within the Bolivia’s Ipati and Aquio projects (OAO Gazprom obtained a 20% stake in the projects). The project participants are planning to jointly explore and develop fields in the said licensed blocks.

In December 2009 OAO Gazprom Neft, as the international consortium operator (30% stake), won the tender for development of Iraq’s Badra field. In late 2013 first oil was produced in the field and in 2014 full-scale development operations were launched. By 2017, the output is expected to reach 170 thousand bbl of oil per day (about 8.5 million t per year). It will be maintained at this level for 7 years. Gazprom Neft presently implements three projects in Iraq. In August 2012 the company signed the agreement on hydrocarbon reserves exploration and development in the Garmian and Shakal blocks in Southern Kurdistan. Gazprom Neft acquired a 40% stake in the Garmian project and 80% — in Shakal. In early 2013 Gazprom Neft entered into another project in Iraqi Kurdistan acquiring an 80% stake in the Halabja block. All the three projects are implemented under the Production Sharing Agreement (PSA) terms. According to the Gazprom Neft estimates, the original oil reserves of the three blocks (translated from resources) exceed 1,300 million t of oil equivalent (about 9.7 billion bbl of oil equivalent).

In addition, Gazprom continues prospecting operations in Central Asia. In 2009 the Dzhel field was discovered in the Shakhpakhty block on the Ustyurt plateau. Geological exploration of the field is underway.

Since December 2010 the Shakhrinav-1p prospecting well has been drilled within the Sarykamysh area in the Republic of Tajikistan. Its design depth is 6,300 m.

It will be the deepest well in the Republic and one of the deepest in Central Asia.

In addition, Gazprom is considering an opportunity for participating in petroleum projects in Sri Lanka, Uruguay, Brazil, the Dominican Republic, Tanzania, Mozambique, Myanmar and some other countries.

Nord Stream and South Stream gas pipelines

The Nord Stream and South Stream gas transmission projects open fundamentally new routes for Russian gas deliveries to Europe in order to enhance European energy security.

The Nord Stream gas pipeline stretches for 1,224 km across the Baltic Sea from the Portovaya Bay (near Vyborg) to the German coast (near Greifswald). The new gas main ensured up to 55 billion m³ of Russian gas supplies to European consumers every year.

The European Union included the Nord Stream project into the list of the top-priority energy projects of the Trans-European Energy Network. The project enabled Gazprom to diversify export flows and directly link Russia’s gas transmission networks with the European gas network. Nord Stream’s distinctive feature is that it bypasses transit countries, and this reduces third-party risks and Russian gas transmission costs as well as enhances the reliability of gas export. The gas pipeline also contributes to expanding gas supply to Russia’s Northwestern Federal District.

In September 2005 OAO Gazprom, BASF SE and E.ON AG entered into the in-principle Agreement on the Nord Stream gas pipeline construction. Dutch Gasunie and French GDF SUEZ joined the project in 2008 and 2010 accordingly.

At present, the shareholding structure of Nord Stream AG, being the gas pipeline construction operator, is as follows: OAO Gazprom — 51%, Wintershall Holding (BASF SE subsidiary) and E.ON Ruhrgas — 15.5% each, N.V. Nederlandse Gasunie and GDF SUEZ — 9% each.
Construction of the UGSS sections in Northwestern Russia to be used, amongst other things, for gas supply via Nord Stream, was initiated in December 2005.


In November 2011 the first gas pipeline string was commissioned and commercial gas supplies to European consumers were launched. In April 2012 the second string of the gas pipeline was laid ahead of schedule. The second string of Nord Stream raised the gas pipeline capacity from 27.5 to 55 billion m³.

In May 2012 full load testing was successfully completed at Nord Stream. The first gas pipeline string was operational under the full load during three days supplying 75 million m³ of gas per day that corresponded to the annual design capacity of 27.5 billion m³.

In October 2012 the second string of the Nord Stream gas pipeline was commissioned.

The South Stream transnational gas pipeline project contemplates supplying Russian blue fuel across the Black Sea to Southern and Central Europe.

The South Stream gas pipeline starts from the Black Sea coast near Anapa (Krasnodar Territory) and runs under the Black Sea crossing the coastline of the Bulgarian Republic. The length of one string of the offshore gas pipeline exceeds 930 km; the maximum depth will reach 2,250 m. The pipeline’s offshore section design capacity is 63 billion m³.

Further gas transmission will be carried out from the Pasha Dere receiving terminal near Varna through Bulgaria, Serbia, Hungary and Slovenia to Northern Italy (Tarvisio), with gas branches from Serbia to Croatia and to Republika Srpska. On April 29, 2014 a Memorandum of Intent was signed to implement the South Stream project in Austria. The total length of the main gas pipeline in Central and Southern Europe amounts to 1,455 km, exclusive of branches. It is planned to construct 8 compressor stations along the gas pipeline route – 3 in Bulgaria, 2 in Serbia, 1 in Hungary and 2 in Slovenia.

OAO Gazprom inked bilateral cooperation agreements to implement the project jointly with the authorized national companies of these countries. Joint project companies were set up for engineering, subsequent construction and operation of the gas pipeline in the respective countries – project participants: South Stream Bulgaria AD (Gazprom and Bulgarian Energy Holding EAD owning 50% each) in Bulgaria, South Stream Serbia AG (Gazprom owning 51%, state-owned Srbijagas – 49%) in Serbia, South Stream Hungary Zrt. (Gazprom and MVM – 50% each) in Hungary and South Stream Slovenia LLC (Gazprom and Plinovodi d.o.o. – 50% each) in Slovenia. At the moment a joint project company is being established in Croatia, with Gazprom and Plinacro d.o.o. as the partners.

In 2011 national feasibility studies for the gas pipeline’s separate sections were completed in cooperation with the authorized companies.

In the third quarter of 2011 the Consolidated Feasibility Study for South Stream was finalized and included a feasibility study for the offshore section and feasibility studies for the gas pipelines in the host countries of Southern and Central Europe.

On September 16, 2011 the Shareholders Agreement of the new project company (South Stream Transport) was signed for the offshore project section implementation. Pursuant to the document, OAO Gazprom holds a 50% stake in the offshore gas pipeline project, Italian Eni – 20%, German Wintershall and French EDF – 15% each.

The project company South Stream Transport is currently engaged in the offshore gas pipeline construction.
In November 2011 Gazprom and Srbijagas commissioned South Stream’s first element – the Banatski Dvor underground gas storage (UGS) facility. It is one of the largest underground gas storage facilities in Southeastern Europe. Its working gas volume makes up 450 million m³, maximum deliverability – 5 million m³ per day. Besides, Banatski Dvor has a potential for further expansion. The UGS facility enhances the security of Russian gas export to Hungary, Serbia, Bosnia and Herzegovina.

In December 2011 all necessary and unconditional permits were granted for the unhampered execution of the project for construction and operation of the South Stream gas pipeline running from Russia via the exclusive economic zone of Turkey.

Pursuant to the Order by Vladimir Putin, Prime Minister of the Russian Federation, a detailed action plan was approved in January 2012 to speed up South Stream and to launch the gas pipeline construction in December 2012 instead of 2013.

From October 29 to November 15, 2012 final investment decisions were made for the project in Serbia, Hungary, Slovenia and Bulgaria as well as the offshore gas pipeline section. The South Stream project was awarded the national significance status in Bulgaria (on December 2, 2011), Hungary (on October 31, 2012) and Serbia (on February 21, 2013).

The construction of South Stream was launched and the ‘first joint’ of the gas pipeline was welded in December 2012 in line with the project schedule. On October 31, 2013 the South Stream construction started in Bulgaria, on November 24, 2013 – in Serbia. The commissioning of the gas pipeline and the start of commercial gas supplies are scheduled for December 2015, with the subsequent buildup of the gas transmission capacities.
Chapter 3
Reserves

According to the Russian classification of reserves:

- Gazprom holds 35.7 trillion m³ of natural gas
- 1.4 billion t of gas condensate
- 1.8 billion t of oil

The value of reserves (as of December 31, 2013):
USD 299.6 billion

What reserves does Gazprom possess?
Gazprom possesses the world’s richest natural gas reserves. Its share in the global and Russian proven gas reserves accounts for 17% and 72% respectively.

Gazprom Group’s A+B+C1 gas reserves totaled 35.7 trillion m³ as of December 31, 2013.

Gazprom annually audits new fields and adjusts the volume and value of the reserves contained in the fields audited earlier, taking account of the reserve dynamics (cumulative production and growth) as well as changes in gas production costs, taxes and prices.
replenishment has been exceeding the level of its gas production. In 2013, as a result of geological exploration activities the Company accrued 646.9 billion m³ of gas, which is 33% up of its production level.

**What are the latest license acquisitions of Gazprom?**

In 2013 pursuant to the Russian Government Directive, Gazprom Group obtained 17 subsurface use licenses with the view of geological survey, exploration and production at sites offshore the Kara, Barents, Chukchi, and East Siberian Seas, including four fields (Leningradskoye, Rusanovskoye, Ledovoye, and Ludlovskoye).

**What is Gazprom’s strategy for its mineral resource base?**

Gazprom’s strategic objective in relation to its resource base is to maintain parity between reserves buildup and production as well as to provide for expanded reserves replenishment in the long term.

A fundamental document determining OAO Gazprom’s mineral resource base replenishment strategy is the Program for Mineral Resource Base Development in Gas Industry until 2035. The Program aims at securing the Company’s robust performance and expanded replenishment of hydrocarbons. The Program provides for building up the total growth in the explored reserves.

As of December 31, 2013 an independent audit was performed under the PRMS international standards on Gazprom’s A+B+C1 reserves – 93% of natural gas, 89% of gas condensate and 88% of oil.

According to DeGolyer & MacNaughton’s appraisal, Gazprom Group’s proven and probable hydrocarbon reserves are estimated at 23.2 trillion m³ of gas, 832.4 million t of condensate, 1,254.2 million t of oil and valued at USD 299.6 billion.

**Gazprom’s share in the global gas reserves**

- audited reserves
- unaudited reserves

Gazprom has recently boosted its geological exploration activities. What are the outcomes?

The major outcome is determined by the fact that in the past nine years OAO Gazprom’s gas reserves
by 20 billion t of fuel equivalent between 2011 and 2035 through exploration activities.

The Yamal Peninsula and Russian northern seas were identified as the long-term strategic priorities in gas production.

Eastern Siberia and the Far East will also be among the key gas production regions through to 2020. Gas production will progress due to the development of the Sakhalin Island offshore fields as well as fields in the Republic of Sakha (Yakutia) and the Irkutsk Region.

In April 2011 the Gazprom Board of Directors approved the updated Program for Hydrocarbon Resources Development on the Russian Federation Shelf until 2030. The Program implementation will enable the Company to annually produce over 200 billion m³ of gas (without regard to gas from Sakhalin II) and some 10 million t of oil from the Russian continental shelf by 2030.

Gazprom’s activities in new regions will help maintain sustainable gas supply in Russia and diversify gas export routes.

It is planned to proceed with gas exploration and production projects abroad in order to expand the Group’s resource base beyond Russia.

### Distribution of Gazprom Group’s natural gas reserves in Russia

![Chart showing distribution of Gazprom Group’s natural gas reserves in Russia]
Chapter 4
Production

Gas production by Gazprom Group:
487.4 billion m³ in 2013
487.0 billion m³ in 2012
513.2 billion m³ in 2011
508.6 billion m³ in 2010
461.5 billion m³ in 2009
549.7 billion m³ in 2008
548.6 billion m³ in 2007
556.0 billion m³ in 2006
555.0 billion m³ in 2005
552.5 billion m³ in 2004
547.6 billion m³ in 2003

How much gas did Gazprom produce in 2013? What is the share of Gazprom in Russian gas production?
In 2013 Gazprom Group produced 487.4 billion m³ of natural and associated gas. Gazprom accounted for 73% of Russian gas production.

Most of Gazprom’s basic fields are at a declining production phase. What does Gazprom undertake to maintain and boost gas production?
A decline in production from basic fields is offset through systematic commissioning of new gas production capacities as well as through higher efficiency of the existing resource base utilization.
Gas production by Gazprom Group

In order to ensure data comparability, the figures for 2003 through 2005 are calculated via a methodology in line with the preparation principles for Gazprom Group’s consolidated statements.

Over the period from 2001 to 2013 Gazprom put into operation the Zapolyarnoye (Cenomanian and Valanginian deposits), Bovanenkovskoye, Vyngaiakhinskoye, Yety-Purovskoye, Yen-Yakhinskoye and Yuzhno-Russkoye deposits as well as the Tab-Yakhinskaya, Pestsovaya and Zapadno-Pestsovaya areas and the second block of the Achimov deposits in the Urengoyskoye field; the Aneryakhinskaya and Kharvutinskaya areas of the Yamburgskoye field, the Nydinskaya area of the Medvezhye field and the Yareyskaya area of the Yamsoveyskoye field. The aggregate annual capacity of these fields exceeds 350 billion m³ of gas.

In October 2012 Gazprom started gas production from the Bovanenkovskoye field in the Yamal Peninsula. The field’s design capacity totals 115 billion m³ of gas per year. In January 2013 the Zapolyarnoye field was brought to its full design capacity, thus becoming the most productive field in Russia with the total annual output of 130 billion m³ of gas.

In addition, Gazprom develops difficult-to-access Achimov deposits in the Urengoyskoye field at the depth of around 4,000 m enabling to extract extra gas amounts. In 2008 OOO Achimgaz, a joint venture of Gazprom and German Wintershall Holding, started production operations within the first pilot block of the Achimov deposits. In 2009 Gazprom commenced independent production within the second pilot block (design capacity – 3.5 billion m³ of gas per year).

In December 2013 Gazprom and Wintershall Holding signed the agreement to develop on a parity basis two additional blocks (the fourth and the fifth) in the Achimov deposits of the Urengoyskoye field.

In May 2011 first gas was produced from the Turonian deposits of the Yuzhno-Russkoye field.

Turonian deposits are classified as hard-to-recover reserves as well. Lying at the depth of 810 to 840 m, they, nevertheless, feature abnormally high reservoir pressures, low reservoir temperatures, discontinuity and variability of the lithological composition and low reservoir permeability.

With a view to enhance the efficiency of the existing resource base utilization, the Company reconstructs and upgrades gas production facilities. Investments are channeled in upgrading the main process equipment, automation systems as well as power, heat and water supply systems and purification facilities.
What is the status of Gazprom’s project aimed at the Yamal Peninsula fields development?

Development of the Bovanenkovskoye gas field, the largest one in terms of gas reserves, was the first step towards the Yamal megaproject implementation. The explored and estimated gas reserves of the field account for 4.9 trillion m$^3$. The projected gas production from the field is to be increased from the current 115 billion m$^3$ to 140 billion m$^3$ per annum in the long term.

In December 2008 Gazprom launched the Yamal megaproject: the first joint of the Bovanenkovo – Ukhta gas trunkline system was welded and drilling of production wells was initiated in the Bovanenkovskoye field.

In 2009, a unique bridge crossing over the Yuribey River, the Obskaya – Bovanenkovo railroad section, was brought into service to become the world’s longest bridge located beyond the Polar Circle. In February 2011 regular operation was launched all over the railroad to the Karskaya terminal station. This important infrastructure facility is aimed at ensuring year-round, rapid, cost effective and all-weather delivery of cargoes and personnel to the Yamal fields in the severe polar climate.

In October 2012 the Bovanenkovskoye field was commissioned. The field’s design capacity is 115 billion m$^3$ annually, corresponding to approximately a sixth part (17%) of the present gas production in Russia. Nowadays, the field comprises a comprehensive gas treatment unit (CGTU) with the annual design capacity of 60 billion m$^3$ of gas.

In 2014 another CGTU with the annual gas capacity of 30 billion m$^3$ will become operational. The Bovanenkovskoye field is expected to reach its design capacity between 2019 and 2021.

Along with the Bovanenkovskoye field, the first string of the Bovanenkovo – Ukhta gas trunkline system (GTS) with the length exceeding 1,240 km was commissioned together with the Baidaratskaya main compressor station. Subsequently, six more compressor stations were put onstream. The second string of the GTS is currently under construction.

What foreign companies partner Gazprom in the Russian upstream projects? What for and on what basis is it done?

Gazprom’s strategy to invite partners for hydrocarbon reserves development is aimed at efficient extraction of resources in a complex geological environment and implies asset swapping on a parity basis in order to expand the scope and geographic reach of Gazprom’s businesses.

For instance, such an approach has been applied to the Yuzhno-Russkoye oil and gas field development. In Russian-German joint venture OAO Severneftegazprom — the field licensee — Gazprom owns 50% plus six ordinary registered shares, German BASF SE and E.ON AG — 25% less three ordinary registered shares and three preference non-voting shares each. In exchange for the German companies participation in Severneftegazprom, Gazprom increased its stakes in Wingas joint venture (to 50% less one share), in ZAO Gerosgaz (to 100%) holding 2.93% of OAO Gazprom shares and obtained a 49% stake in Wintershall subsidiary entitled to develop and produce hydrocarbons in Libya under concession agreements.
Gazprom in Questions and Answers

Gazprom Group’s gas production in Russian Federal Districts in 2013

The Yuzhno-Russkoye field reserves exceed 1 trillion m³, which is, given the present-day volumes of annual gas supply from Russia to Germany, commensurate with exports for 17 years ahead. The field was put into commercial operation in December 2007 and reached its design capacity of 25 billion m³ of gas per annum in 2010.

OOO Achimgaz (a joint venture owned by Gazprom and Wintershall Holding on a par) implements the project for developing the Achimov deposits in the Urengoyskoye field.

Gazprom actively promotes cooperation with foreign companies within the Sakhalin II project, the world’s largest integrated oil and gas project comprising the development of two oil and gas fields (Piltun-Astokhskoye and Lunskoye) on the northeastern shelf of the Sakhalin Island, oil and gas production and transportation through the trans-Sakhalin gas pipelines, LNG production as well as export of hydrocarbons.

In pursuance of the Protocol signed in December 2006 by OAO Gazprom, Shell, Mitsui and Mitsubishi Corporation, Gazprom joined Sakhalin Energy (Sakhalin II operator) as the principal shareholder.

Gazprom purchased a 50% stake plus one share in Sakhalin Energy for USD 7.45 billion. To close the deal each of the Sakhalin Energy shareholders decreased its stake by 50% with recompense to be distributed on a pro rata basis. The agreement on share purchase and sale was signed in April 2007. The shareholding structure of Sakhalin Energy is currently as follows: Gazprom – 50% plus one share, Shell – 27.5% less one share, Mitsui – 12.5% and Mitsubishi – 10%.

In December 2008 the Sakhalin II project started exporting crude oil on a year-round basis and on February 18, 2009 the first Russian LNG plant was put into operation. The entire output of the plant has been contracted out under long-term arrangements (effective for over 20 years).
In 2013 the LNG plant in Sakhalin produced 10.8 million t of LNG. About 80% of LNG was transported to Japan and the remainder – to consumers in South Korea and some other Asia-Pacific countries.

On December 15, 2009 Gazprom and Petrovietnam entered into the Agreement on Strategic Partnership. The document stipulates active interaction between Gazprom and Petrovietnam in oil and gas projects in Russia, Vietnam and in third countries within Gazpromviet. The Nagumanovskoye oil, gas and condensate field located in the Orenburg Region as well as the Severo-Purovskoye gas and condensate field in the Yamal-Nenets Autonomous Area were defined as the objects of the companies’ cooperation in Russia.

**How is Gazprom Group’s liquid hydrocarbons production progressing?**

The oil business development is a strategic objective of Gazprom on its way towards becoming a global energy company.

Gazprom Group’s oil production hinges on OAO Gazprom Neft. Acquired in October 2005, the company made Gazprom Group Russia’s fourth largest oil producer. Gazprom produced 33.8 million t of oil and 14.7 million t of gas condensate in 2013.

In April 2009 OAO Gazprom acquired a 20% stake in OAO Gazprom Neft from Eni exercising its right under the option contract signed in April 2007. As a result of agreements reached, Gazprom Group’s stake in OAO Gazprom Neft has come to 95.68%. The deal promoted the Group’s oil business to a fundamentally new level and started consolidating the oil reserves development activities of the Holding within a single subsidiary company.

In this way, Gazprom Neft was vested with subsurface use rights for the Novoportovskoye, Prirazlomnoy, and the Eastern part of the Orenburgskoye field.

As part of the oil business development strategy and as a result of several acquisitions made in February 2011 Gazprom Neft consolidated a 100% shareholding in Sibir Energy plc. This enabled Gazprom Group to become a majority shareholder in the Moscow Refinery, gain control of the filling station network comprising over 130 stations in the Moscow region and of a number of Western Siberian fields, including 50% in the Salym fields development project.

Gazprom Neft actively pursues the policy of expanding its international market share. Thus, in February 2009 it acquired a controlling stake in the diversified petroleum company NIS (Serbia). In March 2011 the stake in NIS was increased from 51 to 56.15%. In April the company purchased an oils and lubricants plant in Bari (Italy) with the annual production capacity of up to 30 thousand t of oils and 6 thousand t of lubricants from Chevron Global Energy. In summer 2009 Gazprom Neft acquired a 20% stake in OOO National Petroleum Consortium established by five major Russian petroleum companies on a parity basis for oil production projects execution in Latin America. One of the projects is Junin-6 located in the Orinoco River heavy oil belt, Venezuela. It is worth mentioning that OAO Gazprom Neft became the leading operator of the project phase 1 among participating companies. Oil has been produced from Junin-6 since autumn 2012.

In January 2010 OAO Gazprom Neft on behalf of the consortium signed a contract to develop the Badra field (Iraq) with some 3 billion bbl of oil. Gazprom Neft is the project operator holding a 30% stake. First oil was produced from the field in late 2013. The large-scale project development will start in 2014. The oil production is to reach 170 thousand bbl per day (about 8.5 million t per year) by 2017 and remain at this level for 7 years.

In 2012 the number of Gazprom Neft projects in Iraq increased to three. In August the company signed the agreement on hydrocarbon reserves exploration
and development in the Garmian and Shakal blocks in Southern Kurdistan. Gazprom Neft acquired a 40% stake in the Garmian project and 80% — in Shakal. According to the estimates, the resource potential of both fields exceeds 500 million t of oil equivalent (about 3.6 billion bbl of oil equivalent).

In early 2013 Gazprom Neft entered another project in Iraqi Kurdistan acquiring an 80% stake in the Halabja block. All three projects are implemented under the Production Sharing Agreement (PSA) terms. According to Gazprom Neft estimations, in-place reserves of three blocks (recalculated from resources) exceed 1,300 million t (about 9.7 billion bbl) of oil.

In late 2013 Gazprom launched oil production from the Prirazlomnoye field. This is the first national project aimed at developing the Arctic resources. The Prirazlomnoye oil field is located 60 km off the Pechora Sea shore. The recoverable oil reserves amount to over 70 million t. The project operations are implemented from the Prirazlomnaya platform designed and built in Russia on Gazprom’s order. The platform intended for operation under extreme environmental and climatic conditions, meets the most stringent safety requirements and can resist heavy ice loads. In April 2014 the first oil cargo was loaded from the platform. In this way, it is the first time that ARCO (Arctic Oil), the new type of Arctic oil produced from the Russian shelf was supplied to the global market.

Following the 2013 results, Gazprom Neft produced 62.3 million t of oil equivalent — over 4.3% growth versus 2012.

By 2020 Gazprom Neft is planning to boost its annual production volume to 100 million t of oil equivalent taking into account its subsidiaries’ operating results and shares in affiliated companies. The company also intends to maintain the reserves to production ratio at the current level for at least 20 years with the fields at an early development phase to yield no less than 50% of the produced volume by 2020.

The production plan contemplated for 2020 envisages that all of OAO Gazprom Neft’s explored fields are gradually put into operation (including 50% stakes in OAO NGK Slavneft and OAO Tomskneft), expanding the resource base by bringing onstream the oil fields owned by other companies of the Group. In addition, it is supposed to enlarge the asset portfolio through the acquisition of non-licensed areas and new assets.

As of December 31, 2013 the A+B+C1 (Russian standards) oil and condensate reserves of Gazprom Group were estimated at 3.2 billion t allowing to ultimately achieve the production levels commensurate with those of the leading oil companies.

**Coalbed methane production**

In essence, coalbed methane (CBM) extraction is viewed as a key element of OAO Gazprom’s resource base expansion strategy and will ultimately result in emergence of a CBM production industry in Russia. Besides, large-scale deployment of Russian CBM production technologies will minimize accidents at coal mines and considerably improve the environmental situation.

The Russian Federation possesses immense forecast CBM resources — around 84 trillion m³, which is commensurate with one-third of Russia’s forecast natural gas resources.

The Kuzbass region with its forecast methane resources coming to 13 trillion m³ is nowadays considered to be the most appropriate site for commercial production. Methane resources concentration in certain areas of Kuzbass is comparable to the amount of natural gas in northern Tyumen Region. Geological and commercial advantages of Kuzbass as well as the availability of gas infrastructure and consumers at a distance of just 15 to 150 km predetermine the economic viability of commercial methane production in Kuzbass.

In February 2010 Gazprom commissioned the first Russian CBM production facility in the Taldinskoye field.
field (Kemerovo Region). The produced methane is used for power generation at two gas-fired power stations and as a motor fuel. More than a hundred vehicles are methane-powered at the Taldinsky coal strip mine.

Pilot operation of the Narysko-Ostashkinskaya area was launched in 2011. Ten exploratory wells were drilled there.

The Pilot Commercial Development Plan of the Southeast Section of the Taldinsky Coal Strip Mine was approved in early 2012. The project document envisaging a CBM field development in Russia was formulated for the first time ever. It became possible due to the fact that methane was classified as an independent mineral resource and listed in the Russian Classified Index of Natural Resources and Underground Waters.

Between 2014 and 2015 the Taldinskoye field will be brought into pilot commercial operation, the Narysko-Ostashkinskaya area will be fully explored, geological exploration of the highly promising
Gazprom in Questions and Answers

Chaltoksky block and Tutuyasskaya (Raspadskaya) area will begin.

Natural gas extraction and CBM extraction are completely different processes. The latter anticipates using brand new technologies, it is substantially more labor and capital intensive. The Russian CBM production technology was designed by the Group as well. Over 30 patents were received across the entire process cycle – from exploration to utilization of CBM.
Chapter 5

Transmission

The Unified Gas Supply System (UGSS) of Russia:

- **168.9 thousand km** of gas trunklines and branches
- **247** gas pipeline compressor stations with **45.9 million kW** in capacity
- **22** underground gas storage facilities
How is gas transported in Russia? What is the Unified Gas Supply System of Russia?

Natural gas produced in Russia is pumped into gas trunklines integrated within the Unified Gas Supply System (UGSS) of Russia. The UGSS is the largest gas transmission system in the world and it is a unique complex of gas extraction, processing, transmission, storage and distribution facilities. The UGSS provides for a continuous cycle of gas supply from the wellhead to the end user.

Owing to centralized management, considerable ramification and parallel transmission routes, the UGSS has a substantial reliability margin and
is capable of uninterrupted gas supplies even during seasonal peak load periods. The UGSS is 168.9 thousand km long.

247 compressor stations with gas compressor units totaling nearly 45.9 million kW in capacity are used for gas transmission. The Unified Gas Supply System of Russia is owned by Gazprom. The year 2013 saw the commissioning of 700 km of gas trunklines and branches.

**How is the gas pipeline operational reliability ensured?**

In the 1970s and 1980s, when the gas transmission system was built, Gazprom provided it with a
supplied by Gazprom, independent and Central Asian producers.

According to the existing forecasts, gas consumption in the global markets will rise. For example, the Russian Energy Strategy until 2030 envisages that 803 to 837 billion m³ of gas will be produced domestically by 2020 and 885 to 940 billion m³ – by 2030. Consequently, the UGSS throughput capacity is to be increased in order to meet the solvent demand of domestic consumers and Russia’s international obligations in relation to natural gas supply.

Is it true that Gazprom does not grant other gas producers access to the Unified Gas Supply System of Russia?

No, it is not. Gazprom satisfies all the requests by independent gas producers seeking access to the Unified Gas Supply System (UGSS), unless it cannot be granted for purely technical reasons. The main reason is the limited capacity of the gas transmission system. The interaction between Gazprom and other gas market players is fully in line with the Federal Law on Gas Supply in the Russian Federation, which sets the terms and conditions for granting access to free transmission capacity of the UGSS as well as entitles Gazprom to conclude supply contracts or reasonably deny access. Gazprom grants independent gas producers access to the gas transmission system in case:

- the transmission capacity is available for the period when the producer intends to supply gas;
- the input gas meets the required quality level and technical specifications;
- the supplier has the capacity to funnel gas via supply and branch pipelines to consumers, all fitted with gas metering and quality control facilities.

The requirements for gas directed into the system to be transmitted, and the terms and conditions of access to gas mains are governed by law. In order
Independent producers’ gas conveyed through Gazprom’s gas transmission system

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume, billion m³</td>
<td>95.4</td>
<td>99.9</td>
<td>114.9</td>
<td>115.0</td>
<td>119.8</td>
<td>111.2</td>
<td>59.3</td>
<td>64.5</td>
<td>72.8</td>
<td>87.0</td>
<td>104.3</td>
</tr>
</tbody>
</table>

To simplify access to its gas transmission system, Gazprom improves the Regulation on preparation and issuance of permits for independent entities seeking access to the gas transmission system of OAO Gazprom. OAO Gazprom first opened up its gas transmission system for independent gas producers in 1998.

In 2013 Gazprom rendered gas transmission services to 24 companies (in 2012 – 25 companies), not forming a part of Gazprom Group. In 2013 the share of independent producers in the gas transmission system of Gazprom grew to 104.3 billion m³ (versus 87.0 billion m³ in 2012).

What is the current gas transmission rate for independent gas producers? Who is responsible for setting this rate?

For independent producers, the rate of gas transmission via the trunklines of OAO Gazprom is set by the Russian Federal Tariff Service (FTS). Before August 1, 2006 a single rate was set for transmission of 1,000 m³ per 100 km. Since August 1, 2006 a new differentiated rate setting methodology has been used, when the rate consists of two components: a charge for conveying 1,000 m³ per 100 km and a charge for using gas mains (RUB per 1,000 m³), which is determined depending on gas entry and exit points in the gas transmission system.

What are underground gas storage facilities needed for?

Underground gas storage (UGS) facilities are an integral part of the Unified Gas Supply System of Russia and are situated in the key gas consumption regions. UGS facilities help smooth out seasonal fluctuations of gas demand, reduce peak loads in the UGSS and provide better flexibility and reliability of gas supply. The network of UGS facilities supplies Russian consumers with over 20% of total gas volumes during a heating season and sometimes over 40% during sharp cold spells. There are 22 underground storage facilities in the Russian Federation with the total working gas capacity of 69 billion m³. With the account of three UGS facilities in Belarus, Gazprom’s working gas capacity amounts to 69.94 billion m³.

On January 31, 2013 Gazprom reached the record daily withdrawal rate in the entire Russian UGS history – 725.2 million m³ a day, which almost corresponded to the maximum possible daily deliverability at the withdrawal season startup (727.8 million m³). The peak withdrawal rate from Russian storages exceeded 40% of gas consumption within the Unified Gas Supply System.

UGS capacity expansion is a strategic objective of Gazprom. UGS facilities created to smooth out seasonal fluctuations are several times less expensive than the respective backup facilities for gas production and transmission. Gazprom expands UGS facilities in order to raise the flexibility and ensure the optimum loading of the system. In September 2013 Phase 1 of the Kaliningrad underground gas storage facility constructed in salt caverns was commissioned.

The construction of the Volgogradskoye and Bednodemyanovskoye UGS facilities, the expansion of the Kaliningradskoye UGS facility and retrofitting of several acting gas storage facilities are underway in Russia. It is planned to start the construction of the Novomoskovskoye and Shatrovskoye UGS facilities along with gas storages in the Republic of Tatarstan.
Gazprom uses European UGS facilities: in Austria (Haidach), the UK (Vitol owned UGS facility), Germany (Rehden, Katharina and Verbundnetz Gas AG owned UGS facility), Serbia (Banatski Dvor) and Latvia (Incukalns). Between 2006 and 2013 Gazprom's storage capacities in Europe grew from 1.4 to 4.5 billion m³, while the daily deliverability rose from 18.2 to 35.7 million m³.

In 2011 three UGS facilities built with Gazprom Group’s participation were brought onstream. In April 2011 Phase 2 of the Haidach UGS facility was commissioned in Austria. Working gas capacity of Phase 1 and Phase 2 makes up 2.8 billion m³, daily deliverability – 28 million m³. The Haidach UGS facility enhances security of Russian gas supplies to consumers in Slovenia, Croatia, Hungary, Austria, Germany, Slovakia and Italy.

Since October 2011 Gazprom Group has been operating the Banatski Dvor UGS facility (Serbia) with a view to secure the reliability of Russian gas export to Hungary, Serbia, Bosnia and Herzegovina. Phase 1 working gas capacity totals 450 million m³, daily deliverability – 5 million m³, with possible expansion in the future.

As part of the Katharina UGS facility (Germany) construction, the first cavern was commissioned on October 1, 2011. The UGS working gas capacity will stand at some 620 million m³, and its daily send-out – at 26 million m³.

Pursuant to the agreements signed with the consortium of investors (TAQA Onshore B.V. and Energie Beheer Nederland B.V.), the Bergermeer UGS facility is being built in the Netherlands. Gazprom will receive the access to working gas capacity of 1.9 billion m³. The UGS facility will operate in close proximity to the TTF and Zeebrugge Hub, main European trading platforms. This project will secure the reliable operation of the Nord Stream gas pipeline, owing to the UGS strategic location and large working gas volumes. Full-capacity operation of the UGS is scheduled for 2015.

In March 2013 Gazprom Group and MND Group inked an Agreement on a new underground gas storage facility construction in Damborice (Czech Republic). The UGS facility construction will start in 2014, the commissioning is scheduled for 2016. The working gas capacity of the UGS facility will total 448 million m³ (at the daily send-out of 8 million m³), thus making it one of the largest facilities of the kind in the Czech Republic.

Besides, Gazprom Group is conducting a feasibility study of its possible participation in joint UGS-related projects in the UK, France, Romania and Turkey.

The operating gas reserve in Russian UGS facilities:

- 2012 – 66.28 billion m³;
- 2013 – 70.40 billion m³.
What companies of Gazprom Group are focused on the extracted feedstock processing?

Gazprom Group’s processing segment is made up of gas and condensate processing plants, oil refining capacities of Gazprom Neft. OAO Gazprom Neftekhim Salavat, one of the largest oil refining and petrochemical industrial complexes in Russia and Sibmetakhim, which owns the methanol production plant in Tomsk are also part of the Group.

In the gas processing sector Gazprom’s aggregate capacities amount to 53.6 billion m³ of natural gas and 89.4 million t of unstable gas condensate and oil per annum. Gas is processed at six plants: Orenburg Helium Plant, Astrakhan, Orenburg and Sosnogorsk Gas Processing Plants, Surgut Condensate Stabilization Plant and Urengoy.
Gazprom in Questions and Answers

Gazprom Group’s hydrocarbon refining and petrochemical capacity in Russia as of December, 31 2013

<table>
<thead>
<tr>
<th>No.</th>
<th>Location</th>
<th>Type of Plant/Refinery</th>
<th>Natural Gas, bcm</th>
<th>Oil and Condensate, million t</th>
<th>Gas Condensate, million t</th>
<th>Oil, million t</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Serbia</td>
<td>Novi Sad, Oil refinery</td>
<td>7.3</td>
<td>2.56</td>
<td>0.95</td>
<td>2.35</td>
</tr>
<tr>
<td>2</td>
<td>Belarus</td>
<td>Mozyr Oil refinery</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Moscow</td>
<td>Moscow Oil refinery</td>
<td>12.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Yaroslavl</td>
<td>Yaroslavnefteorgsintez (Gazprom Group’s access to 50% of capacity)</td>
<td>7.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Sosnogorsk</td>
<td>Sosnogorsky GPP</td>
<td>1.23</td>
<td>3.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Surgut</td>
<td>Condensate stabilization plant</td>
<td>8.05</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Novy Urengoy</td>
<td>Condensate preparation plant</td>
<td>13.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Astrakhan</td>
<td>Astrakhan GPP</td>
<td>12.0</td>
<td>7.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Orenburg</td>
<td>Orenburg GPP</td>
<td>6.26</td>
<td>3.46</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Salavat</td>
<td>Oil refinery</td>
<td>10.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Omsk</td>
<td>Omsk Oil refinery</td>
<td>21.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Tomsk</td>
<td>Methanol plant</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Condensate Treatment Plant (the three last mentioned plants are part of OOO Gazprom Pererabotka), as well as at OAO Gazprom Neftekhim Salavat.

Oil refining in Gazprom Group is performed mostly on the premises of Gazprom Nef. Gazprom Nef refines about 80% of produced oil. The Omsk Refinery, the company’s primary oil refinery is one of the most advanced in Russia and largest in the world. The company also comprises the Moscow and Yaroslavl Oil refineries and the refining complex of Serbian NIS. The aggregate volume of oil refined in 2013 totaled 42.63 million t. In 2013 all the company’s oil refineries switched to the production of Euro 4 and Euro 5 fuels.

The next stage of modernization is aimed at enhancing the oil refining efficiency – by 2020 it will total 95%, thus allowing the company’s plants to reach the global level in terms of technological equipment.
In 2013 the volume of oil refined at the Omsk Refinery totaled 20.2 million t. The refining efficiency increased to 91.03%. This is one of the best indicators in the industry.

In 2013 the Moscow Refinery of Gazprom Neft (installed capacity – 12.15 million t per annum) refined 11.08 million t of oil.

Gazprom Neft controls a 50% stake in OAO NGK Slavneft owning the Slavneft-YANOS refinery (installed capacity – 15.2 million t). Gazprom Neft has therefore access to its refining capacities proportionately to the stake held. Starting with July 2012, Slavneft-YANOS has been producing gasoline and diesel fuel complying with Euro 5 standard.

Gazprom Neftekhim Salavat, part of Gazprom Group is a unique production complex embracing the full cycle of hydrocarbon feedstock processing, petrochemistry and mineral fertilizer production. The company’s hydrocarbon feedstock processing capacities amount to 0.95 billion m³ of natural gas and 10.3 million t of oil and gas condensate a year. The company’s product range exceeds 90 items. The companies of Gazprom Neftekhim Salavat are linked by raw material, transport and product flows with gas producing and processing subsidiaries of Gazprom.

Gazprom’s gas chemical sector undergoes expansion as part of the creation of the Novy Urengoy Gas Chemical Complex, which is planned to produce 400 thousand t of low density polyethylene per annum derived from the processing 1.4 million t of associated gases per annum at the Urengoy Condensate Treatment Plant.

In 2013 Gazprom’s companies processed 31.5 billion m³ of natural and associated gas, 66.1 million t of oil and unstable gas condensate.

**What are the prospects for associated petroleum gas (APG) utilization in Gazprom?**

In order to improve the efficiency of gas utilization, minimize environmental and taxation risks and to benefit from extra volumes of APG and its derivatives sold, Gazprom Group has been tackling the APG utilization challenge since 2008.

The efficient ways of APG utilization in the Group’s fields are primarily being developed along the following lines:

- increasing the share of APG produced at oil, gas and condensate fields to be processed jointly with natural gas by means of creating extra compressor capacities;

### Production of main derivatives by Gazprom Group in 2013

<table>
<thead>
<tr>
<th>Product</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stable gas condensate and oil, thousand t</td>
<td>6,035.3</td>
</tr>
<tr>
<td>Dry gas, billion m³</td>
<td>24.2</td>
</tr>
<tr>
<td>Liquefied hydrocarbon gases, thousand t</td>
<td>3,276.4</td>
</tr>
<tr>
<td>Motor gasoline, thousand t</td>
<td>12,125.2</td>
</tr>
<tr>
<td>Diesel fuel, thousand t</td>
<td>16,215.2</td>
</tr>
<tr>
<td>Furnace fuel oil, thousand t</td>
<td>9,132.0</td>
</tr>
<tr>
<td>Jet fuel, thousand t</td>
<td>2,852.0</td>
</tr>
<tr>
<td>Sulfur, thousand t</td>
<td>4,936.9</td>
</tr>
<tr>
<td>Helium, thousand m³</td>
<td>3,570.7</td>
</tr>
<tr>
<td>Natural gas liquids, thousand t</td>
<td>1,587.6</td>
</tr>
<tr>
<td>Oils, thousand t</td>
<td>396.2</td>
</tr>
<tr>
<td>Monomers, liquid and monomer-containing hydrocarbon fractions, thousand t</td>
<td>242.6</td>
</tr>
<tr>
<td>Polymers, thousand t</td>
<td>133.2</td>
</tr>
<tr>
<td>Organic synthesis products, thousand t</td>
<td>86.8</td>
</tr>
<tr>
<td>Mineral fertilizers and feedstock for them, thousand t</td>
<td>752.1</td>
</tr>
</tbody>
</table>
creating power generating units to produce electricity both for process needs and for delivery into the unified power supply system;
- constructing new gas processing plants and subsequently delivering final products to the existing and projected facilities;
- building petrochemical capacities for advanced processing in order to receive high value added products;
- injecting excessive APG volumes into the pay zone to boost oil recovery;
- creating gas chemical capacities for APG processing into liquid hydrocarbons in the regions devoid of gas transmission infrastructure, first of all, in Eastern Siberian fields.

In 2013 the level of APG utilization in Gazprom Group (including OAO Gazprom Neft) averaged some 90.9% (70% in 2012, 68.4% in 2011). In this respect, starting with Q4 2012, the level of APG utilization at Gazprom’s fields equals 95% with OOO Gazprom Dobycha Orenburg, OOO Gazprom Pererabotka and OOO Gazprom Neft Orenburg fully utilizing APG.

In 2013 the total level of Gazprom Neft’s APG utilization (including JVs) totaled almost 80% in comparison to 69.3% in 2012.

In 2010 as part of the APG utilization activity the company made a decision to construct a compressor station and an associated petroleum gas capturing system in the Yuzhno-Priobskoye field. In mid-2013 the compressor station was launched. Within the expansion of the APG utilization project in the Priobskoye field, the best project configuration was adopted – the construction of a gas processing plant with the annual capacity of 900 million m³ on the basis of the Yuzhno-Priobskaya compressor station. In December 2013 the agreement for constructing this GPP in the Khanty-Mansiysk Autonomous Area was signed with SIBUR.

**Does Gazprom have processing companies abroad?**

Yes, it does. In February 2009 Gazprom Neft acquired a controlling stake in Serbia’s Naftna Industrija Srbije (NIS) that owns two refineries in Pancevo and Novi Sad with the total capacity of 7.3 million t of oil per annum. In autumn 2012 NIS commissioned a light cracking and hydrotreating unit for motor fuels at the Pancevo Refinery. This enabled the company to completely switch to the production of Euro 5 gasoline and diesel starting from 2013.
Chapter 7
Gazprom in Russian Market

291.0 billion m³ in 2003
305.7 billion m³ in 2004
307.0 billion m³ in 2005
316.3 billion m³ in 2006
307.0 billion m³ in 2007
287.0 billion m³ in 2008
262.6 billion m³ in 2009
262.1 billion m³ in 2010
265.3 billion m³ in 2011
249.7 billion m³ in 2012
228.1 billion m³ in 2013

How much gas does Gazprom annually supply to companies and the population in Russia?
In 2013 Gazprom Group sold 228.1 billion m³ of gas from its resources to Russian consumers, 8.7% less than in 2012. The main reasons for the decline in gas supply were abnormally warm weather conditions during the year (especially in Q1 and Q4 that influenced gas consumption) as well as an increase in gas supply by independent producers.

How does Gazprom decide on the amount of gas to be supplied to this or that consumer?
When planning gas deliveries to consumers, the Company relies on OAO Gazprom Gas Resources Allocation Procedure taking into consideration export supplies and independent producers’ gas.

In accordance with the said document, OOO Gazprom Mezhregiongaz – the major gas trading company in...

Gasification level in the Russian Federation:
53.3% in 2005
64.4% in 2014
Gazprom’s gas sales to consumer groups in 2013

- Power industry 27%
- Metallurgy 22%
- Agrochemistry 8%
- Cement industry 4%
- Utilities 3%
- Population 15%
- Others 21%

Gazprom Group – collects consumer requests for gas deliveries over the next year.

Gas is allocated on the basis of received data.

At the same time, consideration is given to whether consumers have fulfilled their gas payment obligations for previous years. If necessary, Gazprom provides solvent customers with extra gas volumes with due regard to the UGSS technical capabilities and existing international and domestic commitments.

In addition, gas is supplied to new consumers. To secure gas supply, a new consumer files an application form, attaches detailed spreadsheets showing the consumer’s heat and fuel requirements, and a final statement of a transportation organization confirming it has facilities and capacity to supply gas. A permit to use gas is issued on account of resource availability in Russia’s regions, optimal gas transmission system loading and feasibility of using gas as a fuel.

At what prices does Gazprom sell gas to Russian consumers?
How are these prices set?

In Russia wholesale prices for gas extracted and supplied by OAO Gazprom and its affiliates are annually set by the Russian state represented by the Federal Tariff Service (FTS).

The wholesale regulated price for natural gas delivered to Russian consumers in 2013 averaged RUB 3,393.9 per 1,000 m³ (net of VAT).

Moreover, Government Directive No. 333 of May 28, 2007 entitled Gazprom to supply certain consumers with gas at contract prices within the regulated range with the upper and lower limits set by the FTS.

Gazprom receives revenues from gas sales at the wholesale price. Revenues of gas distribution companies conveying gas to consumers via gas distribution networks are formed through regulated transmission tariffs. Regional gas trading companies
receive charges for supply and marketing services rendered.

The retail gas prices for the population are set by administrations of the Russian constituent entities.

Gas pricing for the population has some particular features, i.e. pricing for privileged consumer groups. Besides, if there are no gas meters in apartments, charges are calculated on the basis of established standards.

Gas in Russia is the cheapest and hence the most widely used fuel.

The share of gas in the primary energy mix of the Russian economy exceeds 50%. Russia's top-heavy fuel balance threatens national energy security; with gas being as cheap as it is, other fuel alternatives such as fuel oil, peat and coal tend to stagnate. Cheap gas fails to induce efficient utilization of this non-renewable natural resource.

Regulated gas prices are undervalued prices. Due to such prices Gazprom is not able to generate enough revenues from gas sales in the Russian market for creating its own source of finance to be invested in constructing new gas production, transmission and storage facilities and maintaining the existing ones for the benefit of Russian consumers. Ultimately such prices hinder the gas industry development and hamper the formation of an efficient structure of the Russian economy. In fact, the companies subsidized by Gazprom have no stimuli to cut operating expenses due to cheap energy supplies. There is no favorable environment for promoting gas- and energy-savings as well as for developing high-tech industries due to cheap gas. The Russian economy is currently the most gas-consuming economy in the world. Unlike many industrial countries where gas is mostly consumed by households, in Russia gas is primarily supplied to power generating companies, metallurgical and chemical industries. Moreover, long-term deliveries of cheap gas to Russian export-oriented producers can be viewed upon as unjustified export subsidies.

Thus, for many years the primary sales market – the domestic market – failed to provide sufficient funding to the Company’s new projects for large-scale field development, capacity upgrade and new gas pipelines construction as well as Russian regions gasification.

What is the Russian gas market structure?

The Russian gas market is divided into a regulated sector and a deregulated sector. Gazprom is the main gas supplier for the regulated sector, while the deregulated sector is mostly supplied by independent gas producing and oil companies.

The regulated market sector currently dominates. The Government regulates:

- wholesale natural gas prices, which apply to natural gas sales by OAO Gazprom and its affiliated companies in the domestic market;
- tariff rates for the services provided to independent producers and related to natural gas transmission via gas mains and those related to natural gas transmission via gas distribution networks;
- charges for supply and marketing services.

Independent producers sell their gas at deregulated prices, altogether they meet around one-third of Russia’s demand for blue fuel. At the same time, the Government stopped regulating the prices of alternative fuels, notably coal and fuel oil, in the early 1990s.

On May 28, 2007 the Russian Federation Government approved Directive No. 333 on Improving State Regulation of Gas Prices which proclaims a new pricing mechanism for gas supplied by Gazprom. This mechanism contemplates setting a regulated price ceiling (minimum and maximum price levels) for different consumer groups. Fixed gas prices set by the Russian FTS are identified as the minimum price levels. The maximum price levels are set forth by the
above mentioned Directive of the Russian Federation Government. Excess percentage of the maximum wholesale prices over the fixed regulated prices was set as 10% since January 1, 2011. The right to determine gas prices within these limits is granted to suppliers and buyers. This pricing procedure is applied to new consumers that sign their first supply contract after July 1, 2007 and to natural gas supplies in excess of the contracted volumes. Long-term gas supply contracts play a crucial role in the Russian gas market development.

Long-term contracts are mutually beneficial both for suppliers and prominent gas consumers. The market based pricing method fixed in contracts will allow, as compared to the regulated method, for more flexibility in adjusting prices to gas consumption levels by different industries and to seasonal fluctuations as well as consideration, upon agreement with certain consumers, of such factors as price variations depending on the supply schedules, offtake patterns during a day, a week, etc.

The world gas market development experience shows that long-term contracts can steadily guarantee gas deliveries to the consumer and investments necessary for the gas industry development to the producer.

The balance of interests of natural gas consumers and producers in Russia will be achieved in the process of wider application of market based gas pricing methods along with the state regulation of tariffs for gas transmission services.

Government Decree No. 1205, dated December 31, 2010 on Streamlining State Regulated Gas Prices set the task to transfer in 2015 from the state regulated wholesale gas prices to state regulated tariffs for gas transmission via the gas pipelines in Russia.

How are natural gas exchange technologies used in Russia?
The application of stock exchange quotations as market price indicators is one of the main features of a civilized gas market. Past experience shows that 5 to 10% of the industry output should be traded at an electronic platform for the exchange price to become a benchmark for contract prices.

From December 2006 to 2008 Russian gas market players gained necessary experience in using modern gas exchange technologies at the Electronic Trading Platform (ETP) of OOO Gazprom Mezhregiongaz, a trading company of Gazprom.

The ETP proved its high efficiency in providing independent producers with access to the gas transmission system, meeting extra demand for gas and creating a transparent mechanism for fair gas pricing.

The two-year experiment at the ETP allowed to approbe techniques for spot sales and supplies of actual gas volumes on a day ahead, a week ahead or a month ahead basis. The sales volume exceeded 13.3 billion m³ of gas (of which 7.5 billion m³ was supplied by Gazprom and 5.8 billion m³ — by independent producers) valued at RUB 20.7 billion in total.

Due to the expiry of the experiment term, gas trading sessions at the ETP were terminated on January 1, 2009.

Gazprom jointly with the Russian Energy Ministry goes on working on establishing the mechanisms of well-coordinated gas trade (exchanges and trading systems). In order to increase the efficiency and fairness of trade, it is necessary to make amendments into regulatory documents aimed at creating equal business conditions in the gas market for all its players as well as at increasing the customers’ responsibility for offtaking less gas than fixed in the gas supply agreement. This trade, if resumed, will make it possible to obtain market indicators necessary for streamlining the gas price formation system.

How does Gazprom undertake gasification efforts in Russia?
Gazprom’s participation in the Russian Federation regions gasification is one of the most prominent and
socially important aspects of the Company’s activity in the domestic market.

From 2005 to 2013 Gazprom channeled about RUB 214 billion to regional gasification (net of expenditures on construction of gas branches and gas distribution stations being an integral part of the regional gasification process).

In 2013 for the second year in a row Gazprom allotted a record amount, RUB 33.9 billion, to the Russian Regions Gasification Program. Over the mentioned nine years the Company built 1,697 inter-settlement gas pipelines with the length exceeding 24 thousand km, created favorable conditions for gasification of over 4 thousand boiler houses and 670 thousand apartments and households. As a result, by the beginning of 2014 the average gasification level in Russia increased by 12% reaching 65.3%, including in towns and rural areas – to 70.9 and 54% accordingly. In 2014 Gazprom is planning to earmark RUB 27.6 billion for the Russian regions gasification.

A well-adjusted system of interaction between OAO Gazprom and Russia’s regional authorities contributes to the successful implementation of the gasification program. This system hinges on cooperation agreements with regions.

In December 2009 a new version of the Concept for the Company’s participation in the gasification of Russian regions was approved. It provides for a multi-faceted approach to gasification on account of regional gas resources availability, development of existing fields as well as availability of alternative primary fuels including liquefied and compressed natural gas.

The Concept divides Russian regions into three groups according to their gas infrastructure maturity level. Out of these three groups Gazprom pays special attention to the gasification of settlements being under-populated and remote from gas mains, which is particularly important in rural areas. In this respect the gasification of each region is carried out on a three-year basis.

Gazprom’s large-scale gasification activities are aimed at achieving the maximum economically viable level of gas penetration in Russia. Being currently among the Company’s paramount objectives, gasification of Eastern Siberia and the Far East is carried out simultaneously with gas production and transmission infrastructure creation in these regions.
Chapter 8
Gazprom in Foreign Markets

Gas supplies to Europe in 2013: 161.5 billion m³

Gas supplies to the CIS and Baltic States in 2013: 59.4 billion m³

How much gas does Gazprom sell abroad?
In 2013 Gazprom supplied 220.9 billion m³ of natural gas abroad.

What countries does Gazprom supply gas to?
Gazprom is one of the primary suppliers of natural gas to European consumers and accounts for roughly two-thirds of aggregate gas import to Europe. Export deliveries of Russian gas began in the mid-1940s to Poland. In 1967 Russian gas was delivered to Czechoslovakia. In 1968 Russian gas was supplied to Western Europe under a contract with Austrian OMV. In 2013 Russian pipeline gas was fed to 30 countries.
Gazprom in Questions and Answers

Gazprom Group’s gas sales structure in 2013

53.4% Russia

33.7% Europe

11.8% CIS

1.1% Baltic States

In 2013 Gazprom supplied a total of 161.5 billion m³ of gas beyond the CIS. As of today, the largest buyers of Russian blue fuel beyond the CIS are Germany, Turkey and Italy.

In 2013 gas supplies to the CIS and Baltic States accounted for 59.4 billion m³.

What are Gazprom’s international partners?
Gazprom’s key international partners are: E.ON, BASF, Wintershall Holding, Verbundnetz Gas and Siemens (Germany), GDF SUEZ, EDF and Total (France), Eni (Italy), Botas (Turkey), Fortum (Finland), Gasunie and GasTerra (the Netherlands), DONG Energy (Denmark), Statoil (Norway), OMV (Austria), CNPC and PetroChina (China), GAIL (India), Sonatrach (Algeria), Petrovietnam (Vietnam), PDVSA (Venezuela), MOL (Hungary), PGNiG (Poland), SPP (Slovakia), Srbijagas (Serbia), Bulgarian Energy Holding EAD, Kogas (Korea), Mitsu, Mitsubishi Corporation (Japan) and transnational Shell.

It is not a complete list of the Company’s international partners as Gazprom actively cooperates with

Gas supplies to Europe in 2013, billion m³

<table>
<thead>
<tr>
<th>Country</th>
<th>Sales volume</th>
<th>Country</th>
<th>Sales volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>41.0</td>
<td>Netherlands</td>
<td>2.9</td>
</tr>
<tr>
<td>Turkey</td>
<td>26.7</td>
<td>Romania</td>
<td>1.4</td>
</tr>
<tr>
<td>Italy</td>
<td>25.3</td>
<td>Bulgaria</td>
<td>2.9</td>
</tr>
<tr>
<td>Poland</td>
<td>12.9</td>
<td>Denmark</td>
<td>0.3</td>
</tr>
<tr>
<td>UK</td>
<td>16.6</td>
<td>Greece</td>
<td>2.6</td>
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<tr>
<td>Czech Republic</td>
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<td>France</td>
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<td>Slovenia</td>
<td>0.5</td>
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<tr>
<td>Hungary</td>
<td>6.0</td>
<td>Switzerland</td>
<td>0.4</td>
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<td>Austria</td>
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<td>Macedonia</td>
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<tr>
<td>Finland</td>
<td>3.5</td>
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</table>

Gas supplies to the CIS in 2013, billion m³

<table>
<thead>
<tr>
<th>Country</th>
<th>Sales volume</th>
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</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>25.8</td>
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<tr>
<td>Belarus</td>
<td>19.8</td>
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<tr>
<td>Kazakhstan</td>
<td>4.7</td>
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<tr>
<td>Moldova</td>
<td>2.4</td>
</tr>
<tr>
<td>Lithuania</td>
<td>2.7</td>
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<tr>
<td>Armenia</td>
<td>1.7</td>
</tr>
<tr>
<td>Latvia</td>
<td>1.1</td>
</tr>
<tr>
<td>Estonia</td>
<td>0.7</td>
</tr>
<tr>
<td>Georgia</td>
<td>0.2</td>
</tr>
<tr>
<td>South Ossetia</td>
<td>0.028</td>
</tr>
</tbody>
</table>
foreign companies in executing a broad range of joint projects in addition to gas supplies.

**Under what terms and conditions does Gazprom export gas?**

Gazprom exports gas mainly under long-term contracts (up to 25 years) concluded, as a rule, on the basis of inter-governmental agreements.

Long-term arrangements are the foundation for steady and reliable gas supplies. Only long-term deals can guarantee the producer and exporter’s returns on multibillion dollar investments required for the implementation of major gas export projects, and assure steady and uninterrupted gas deliveries for the importer in the long run.

Long-term agreements with major buyers typically contain a take-or-pay provision meaning that the customer agrees to pay for a certain minimum amount of gas even when a lesser amount was physically oftaken. For prominent gas suppliers, such as Gazprom, this is an indispensable guarantee of the buyer’s responsibility.

**Do Gazprom’s export prices differ from those for the domestic gas consumers?**

Yes, they do. Export supplies are significantly more expensive. For example, in 2013 Russian blue fuel was supplied to Western Europe at the prices approximately 2.8 times higher and to the CIS and Baltic States – more than two times higher than those for Russian consumers.

**How are Russian gas prices set for the CIS countries?**

In 2006 Gazprom completed a transition to the market based pricing principles for gas consumers in all of the CIS and Baltic countries. As a result, gas prices for the FSU have grown twofold to threefold and gradually reached European levels. At the same time, when generating price offers for each of the countries, Gazprom gives consideration to a degree of their integration into the Company’s gas business. Special attention is paid to the development of market based cooperation with the major countries transiting Russian gas to Europe – Ukraine and Belarus. At present, there is a clear differentiation between contracts for gas supply to Ukraine and contracts for gas transit via its territory. The market principles of relationship are fixed in a five-year gas supply and transit contract signed with Belarus.

The transparency of Gazprom’s relationships with transit countries is beneficial to all parties and is indispensable for securing the reliability of Russian blue fuel deliveries to European consumers.

**What is the basis for a high end-consumer gas price in Europe? Does Gazprom have opportunities to sell gas to end consumers abroad?**

The price level for European consumers mainly depends on the cost of gas transmission services. Gazprom sells most of its export gas at the border of the importing country to local distributors that subsequently supply it to end consumers. The end-consumer price includes the cost of gas transmission via low pressure pipeline networks maintenance of which is several times more expensive than in Russia, plus taxes.

Gazprom’s marketing policy provides for optimizing the costs of gas transit to Western Europe and gaining access to the end consumer. For this purpose, the Company is activating various forms of participation in the European gas distribution business.

For instance, back in 1993 Gazprom and German Wintershall established the Wingas joint venture owning around 2,000 km of pipelines in Germany and Europe’s largest Rehden underground gas storage facility with the capacity of over 4 billion m³. At present, Gazprom holds 50% less one share in the joint venture. Thus, participating in Wingas, Gazprom is a co-owner of Germany’s gas transmission networks.
Under the agreement with Eni, Gazprom Export, a foreign trade subsidiary of Gazprom, was entitled to independently sell over 3 billion m³ of gas in the Italian market.

Gazprom’s strategy of gaining access to the end consumer is evolving in the CIS market.

ZAO Gazprom Armenia supplies gas to the Armenian market and sells it to each and every group of end consumers.

Since April 1, 2008 Gazprom Sbyt Ukraine has been supplying gas to Ukrainian industrial consumers.

**What impact does the European gas market liberalization have on Gazprom’s export policy?**

Gazprom’s international business activities are carried out in full compliance with the applicable legislation in the countries of Gazprom Group’s presence.

Recent developments in the European Union legislation aimed at the liberalization of the gas market influenced both organizational issues of the business activities and contracts for gas supplies to the EU member states.

Pursuant to the new regulations, Gazprom’s companies removed the contract provisions that restricted reselling Russian blue fuel.

Supporting the EU efforts to shape a single European energy market, Gazprom believes – and major European energy companies share this opinion – that the basic architecture should be comprised of long-term arrangements for blue fuel supply to secure stability, reliability and predictability of the gas market.

European consumers are committed to the long-term contracts with Gazprom. This is confirmed by the fact that the Company extends export contracts with its western partners. Thus, GDF SUEZ (France) has renewed its contract until 2030, E.ON (Germany) – until 2035, Wintershall Holding (Germany) – until 2030, Gasum (Finland) – until 2026, Eni (Italy) – until 2035. Contract extensions until 2027 and new arrangements were agreed on with Austrian EconGas, GWH and Centrex. Contracts were concluded with Romanian Conef Energy for the period from 2010 to 2030, Swiss WIEE for the period from 2013 to 2030, German WIEH until 2027, Czech Vemex for the period until 2018, Italian Premium Gas until 2024 and Sinergie Italiane up to 2022.

Gazprom is alert to the legislative initiatives under consideration in the EU and constantly takes part in discussing the issues that may have a negative impact on the natural gas market and impair the situation for all the players. In particular, prohibiting natural gas suppliers from acquisition of large gas transmission projects in which they frequently invested their own funds causes concern as well as the obligations to provide the third parties with access to gas transportation capacities.

This may lead to a lack of funds and an increase in transmission costs and, therefore, have a negative effect on the gas supply reliability.

**Does Gazprom plan to supply pipeline gas to the Asia-Pacific markets?**

In May 2014 Gazprom and China National Petroleum Corporation signed a contract for Russian pipeline gas supply to China. The 30-year contract worth some USD 400 billion envisages the export of more than 1 trillion m³ to China.

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### Average gas sales price (excluding VAT, excise duties and customs duties) RUB per 1,000 m³

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>2,345.5</td>
<td>2,725.4</td>
<td>2,964.2</td>
<td>3,393.9</td>
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<tr>
<td>Europe</td>
<td>7,420.7</td>
<td>9,186.6</td>
<td>10,104.4</td>
<td>9,680.1</td>
</tr>
<tr>
<td>CIS and Baltic States</td>
<td>6,416.5</td>
<td>7,802.1</td>
<td>8,016.4</td>
<td>7,132.8</td>
</tr>
</tbody>
</table>
The mutually beneficial document contains such major provisions as the price formula linked to oil prices and the 'take-or-pay' clause.

“The arrangement of Russian pipeline gas supplies is the biggest investment project on a global scale. USD 55 billion will be invested in the construction of production and transmission facilities in Russia. An extensive gas infrastructure network will be set up in Russia’s East, which will drive the local economy forward. Great impetus will be given to entire economic sectors, namely metallurgy, pipe and machine building,” said Alexey Miller, Chairman of OAO Gazprom Management Committee after the signing.

Gas from the Yakutia and Irkutsk gas production centers, for which the Chayandinskoye and Kovyktinskoye fields are basic respectively, will be the resource base for supply to China. Gazprom will start pre-developing the Chayandinskoye field in 2015 and first gas will be produced there in late 2018.

Gas will be supplied via the Power of Siberia gas transmission system with the annual design capacity of 38 billion m³ of gas with the possibility of extension to 64 billion m³ a year. 1,420 mm pipes designed for the pressure of 100 Ata manufactured in Russia will be mostly used in construction.

What place does liquefied natural gas hold in Gazprom’s export strategy?
Gazprom considers the LNG segment to be the means of optimizing the Company’s export portfolio. Building up LNG sales volumes primarily through own production is one of the main business lines.

In 2005 Gazprom started its activities in the LNG market by spot and swap deals effectuated by Gazprom Marketing & Trading. Between 2005 and 2013 the total volume of LNG sales amounted to 8.9 million t (12.0 billion m³). Taking into account the increased scope of LNG trade and marine freight, a special subsidiary company, Gazprom Global LNG, was established in August 2008 to do the LNG business.

In 2007 Gazprom became one of the Sakhalin II project participants. Within the project, Russia’s first LNG plant was put into operation in February 2009. In 2010 the plant surpassed its design capacity (9.6 million t per year) by producing over 10 million t of LNG. In 2013 the plant produced 10.8 million t of LNG. The entire output was contracted out based on long-term arrangements. The first carrier containing Sakhalin LNG arrived in Japan in April 2009.

The agreements for LNG supplies from Sakhalin were signed with Shell Eastern Trading Ltd. and Gazprom Global LNG in April 2009. Pursuant to these agreements, Sakhalin Energy will supply some 1 million t of LNG per year to each of the purchasers between 2009 and 2028.

In 2012 Gazprom Group and Indian GAIL entered into a Purchase and Sale Agreement for liquefied natural gas. The Agreement provides for Russian LNG supply to India in the amount of 2.5 million t per annum for a period of 25 years. The Agreement came into effect in June 2014.

In December 2012 Gazprom Group completed the first LNG supply via the Northern Sea Route (NSR). The successful voyage of the Ob River LNG carrier chartered by Gazprom provides for the opportunity of the full-scale use of the NSR for Russian gas supplies both to the countries of the Asia Pacific and to the European market.

Gazprom aims to speed up the implementation of new LNG projects intended to increase the Company’s share in the global gas market. These projects are Vladivostok LNG in the Primorye Territory and Baltic LNG in the Leningrad Region.

In February 2013 Gazprom adopted the final investment decision on the Vladivostok LNG project. The start of supplies from the first train of the plant
is expected in 2018, from the second train – in 2020. Each train will have an annual capacity of 5 million t. In future the plant capacities may be expanded. The LNG target market is represented by the Asia-Pacific countries.

In June 2013 Gazprom and the Leningrad Region authorities signed the Memorandum of Understanding and Cooperation regarding the LNG plant construction in the region. The plant will have an annual capacity of up to 10 million t of LNG and is expected to be operational in 2018.
Chapter 9
International Projects

Projects aimed at developing the transnational Eurasian gas transmission system:
- Yamal – Europe gas pipeline
- Blue Stream gas pipeline
- Nord Stream gas pipeline
- South Stream gas pipeline

International projects aimed at developing hydrocarbon fields:
- Venezuela
- Libya
- Vietnam
- Bolívia
- Algeria

What gas transmission projects does Gazprom develop in Europe?

Yamal – Europe gas pipeline

The transnational Yamal – Europe gas pipeline runs across four countries: Russia, Belarus, Poland and Germany. The current overall length of the gas pipeline exceeds 2,000 km. There are 14 compressor stations operational, of which three are in Russia, five – in Belarus, five – in Poland and one – in Germany.

The gas pipeline construction began in 1994 close to the German and Polish borders, and first sections of the pipeline were brought onstream as early as in 1996.
The German end of the project was overseen by Wingas, a joint venture between Gazprom and Wintershall Holding. Russian gas arrives at the Mallnow compressor station in the vicinity of the German-Polish border.

The Polish section of the gas pipeline was built by EuRoPol GAZ, a joint venture owned by Gazprom and Polish PGNiG.

Gazprom is the sole investor and owner of the Belarusian gas pipeline section.

Upon commissioning of the last compressor station in 2006, Yamal – Europe reached the full capacity of 33 billion m³ per annum.

**Blue Stream gas pipeline**

The purpose of the Blue Stream gas main is to directly supply Russian gas to Turkey and bypass transit countries. The 1,213 km long gas pipeline consists of an overland and a submerged section. It starts in the vicinity of Izobilnoye, Stavropol Territory and ends in Ankara, Turkey.

The submerged section of Blue Steam is unique in design and construction.

The submerged pipeline rests on the bottom of the Black Sea at depths of up to 2,150 m, i.e. one-third deeper than every known underwater pipeline in the world. Construction was impeded by the unfavorable landscape of the bottom and by the aggressive ground environment saturated with hydrogen sulfide. The submerged section of the pipeline is 393 km long. The gas pipeline was completed in December 2002. In February 2003 commercial gas started flowing through the pipeline. The design capacity of Blue Stream equals 16 billion m³ of gas per annum.

In 2013 Blue Stream conveyed 13.7 billion m³ of gas. In March 2014 the total volume of gas supplied via Blue Stream amounted to 100 billion m³.
South Stream gas pipeline

For the purpose of diversifying natural gas export routes OAO Gazprom is planning to construct a gas pipeline across the Black Sea to Southern and Central Europe – the South Stream project.

The length of the offshore section will exceed 930 km; the maximum depth will reach 2,250 m.

The design capacity of the gas pipeline makes up 63 billion m³.

Intergovernmental cooperation agreements were signed with Bulgaria, Hungary, Greece, Serbia, Slovenia and Croatia in order to construct the offshore pipeline section.

The South Stream gas pipeline starts from the Russian Black Sea coast near Anapa (Krasnodar Territory), runs through the Black Sea crossing the coastline of the Bulgarian Republic. Further gas transmission will be carried out from the Pasha Dere receiving terminal near Varna through Bulgaria, Serbia, Hungary and Slovenia to Northern Italy (Tarvizio), with gas branches from Serbia to Croatia and to Republika Srpska. On April 29, 2014 the Memorandum of Intent was signed to implement the South Stream project in Austria.

In January 2008 Gazprom and Eni set up a special purpose entity, South Stream AG, to carry out marketing research and compile a feasibility study for the construction of the South Stream offshore section.

On September 16, 2011 the shareholders of the new project company South Stream Transport signed the Agreement for the offshore section of the project. Pursuant to the Agreement, the stakes in the offshore gas pipeline project are distributed as follows: Gazprom – 50%, Italian Eni – 20%, German Wintershall and French EDF – 15% each.

South Stream’s first element – Banatski Dvor underground gas storage facility – was commissioned in Serbia in November 2011. The UGS facility is one of the largest in Southeastern Europe.
Later on, in December 2011 Turkey granted a permit for the South Stream gas pipeline construction and operation in its exclusive economic zone.

In the Q3 of 2011 the Consolidated Feasibility Study of South Stream was finalized and included a feasibility study of the offshore section and feasibility studies of the respective gas pipelines in the host countries of Southern and Central Europe.

In the beginning of 2012, pursuant to the assignment by Vladimir Putin, Prime Minister of the Russian Federation, a detailed action plan was approved to speed up South Stream and to launch the gas pipeline construction in December 2012 instead of 2013.

From October 29 to November 15, 2012 final investment decisions were made for the project in Serbia, Hungary, Slovenia and Bulgaria. On November 14, 2012 the meeting of the South Stream Transport Board of Directors adopted a final investment decision for the South Stream gas pipeline offshore section.

The construction stage was initiated and the ‘first joint’ of the South Stream gas pipeline was welded on the border with its offshore section in December 2012 in compliance with the project schedule. On October 31, 2013 the gas pipeline construction started in Bulgaria, on November 24, 2013 – in Serbia. The first gas supplies via the gas pipeline are scheduled for late 2015, and the gas transmission capacities will be further expanded.

During the South Stream project implementation Gazprom and Eni will apply their experience gained in laying the submerged section of the Blue Stream gas pipeline across the Black Sea and utilize up-to-date technologies complying with the most stringent environmental requirements.

**Nord Stream gas pipeline**

The Nord Stream gas pipeline runs across the Baltic Sea from Russia to Western European countries. Nord Stream will constitute a fundamentally new export route for Russian gas. With no transit countries on its way, the new transnational gas main
Gazprom in Questions and Answers

is distinguished by zero country risk and low transit costs, while assuring more reliable export supplies of Russian gas.

The project is crucial to diversify export routes and directly link the gas transmission pipelines of Russia with the European gas network.

Nord Stream stretches for nearly 1,224 km under the Baltic Sea from the Portovaya Bay (Vyborg) to the German coast (Greifswald).

The Unified Gas Supply System elements required for gas supplies via Nord Stream are being constructed by Gazprom itself.


OAO Gazprom (51%) partners BASF/Wintershall Holding and E.ON AG (15.5% each), Gasunie and GDF SUEZ (9% each) within the project.

Representing the pan-European significance, the Nord Stream project has been included into the list of the top-priority energy projects of the Trans-European Energy Network. The main target markets for gas supplies via Nord Stream are Germany, Denmark, the Netherlands, the UK and France.

The major gas customers of the first gas pipeline string are Wingas, Gazprom Marketing & Trading, E.ON Ruhrgas, GDF SUEZ and DONG Energy.

Construction of the first string with the throughput capacity of some 27.5 billion m³ per annum was completed in September 2011.

In November 2011 the gas pipeline’s first string was commissioned and commercial gas supplies to European consumers were initiated. In May 2012 Nord Stream successfully completed full load tests. During three days the gas pipeline’s first string was operational fully loaded supplying 75 million m³ of gas per day that correlated with the annual design capacity of 27.5 billion m³.

The Nord Stream’s second string laying commenced in May 2011 and completed on April 19, 2012 ahead of schedule; in October 2012 it was commissioned. The second string increased the gas pipeline capacity from 27.5 to 55 billion m³.

**Why does Gazprom purchase gas in Central Asia? Will Gazprom produce gas in Central Asia? How is Central Asian gas transported?**

As the groundwork for sustainable gas supply at the required level, Gazprom is looking to tap into new fields in various regions, for example, the Yamal Peninsula and the Arctic shelf. All these areas have exceptionally challenging climatic and geological conditions. Gas will cost much more to extract there compared to other regions.

Therefore, Gazprom is seeking to add natural gas of Central Asian origin to its export portfolio in order to enhance the effectiveness of trading operations.

Cooperation between Gazprom and Central Asian gas producers began in 2001 and now covers gas purchases and transit across Central Asian countries, exploration and production, gas processing at Russian facilities as well as creation and acquisition of fuel and energy infrastructure facilities in Central Asia.

In 2013 Gazprom Group acquired 29.86 billion m³ of Central Asian gas, including 10.95 billion m³ in Turkmenistan, 5.66 billion m³ in Uzbekistan, and 11.87 billion m³ in Kazakhstan. From 2011 purchases of Azerbaijani gas were initiated. In 2013 their amount totaled 1.38 billion m³.

**Kazakhstan**

Currently, Gazprom has the strongest partnership in the region with Kazakhstan’s national holding company AO NK KazMunaiGaz.
KazRosGaz is a joint venture set up by OAO Gazprom and AO NK KazMunaiGaz on a parity basis in 2002. Its major activities are purchase, marketing, processing, transportation and distribution of natural gas and its derivatives in the domestic and foreign markets.

The set of medium-term contracts between OAO Gazprom and AO Intergas Central Asia (gas transmission subsidiary of NK KazMunaiGaz) for the transmission of Russian and Central Asian natural gas through Kazakhstan was extended until 2015.

The Agreement on Basic Principles for Creation and Operation of Joint Venture Based on Orenburg Gas Processing Plant signed by OAO Gazprom and AO NK KazMunaiGaz is in force since 2007. The joint venture is focused on processing hydrocarbon resources from the Orenburg Region and the Karachaganak field on a processing fee basis. Creating the joint venture on the platform of the Orenburg Gas Processing Plant and boosting Karachaganak gas processing volumes to 16 billion m$^3$ a year helps provide for the full loading of all the existing and upgraded gas processing plants. The bulk of processed gas volumes is destined for Kazakhstan and the remainder is marketed under export contracts.

In 2008 OOO TsentrCaspneftegaz (a joint venture of OAO Gazprom and OAO LUKOIL) discovered a field, named Tsentralnoye within the Tsentralnaya geological structure in the Caspian Sea. The field’s aggregate recoverable resources amount to 101.4 million t of oil, 7.5 million t of condensate and 162.1 billion m$^3$ of free and dissolved gas.

The work is underway to coordinate the draft versions of the Production Sharing Agreement and the constituent documents for a joint venture to be set up between OOO TsentrCaspneftegaz, representing the Russian party, and AO NK KazMunaiGaz, representing the Kazakh party. The said documents have been drawn up by OOO TsentrCaspneftegaz.

In 2011 OAO Gazprom and AO NK KazMunaiGaz signed an Agreement to authorize KazRosGaz as the operator of the Imashevskoye field.
**Uzbekistan**
Strategic cooperation in the gas industry between Gazprom and National Holding Company Uzbekneftegaz hinges on the Agreement signed in 2002 on long-term purchases of Uzbek gas from 2003 to 2014.

A pilot project for Gazprom in Uzbekistan’s upstream sector was the recovery of gas production from the Shakhpakhty field. The joint project is based on a production sharing agreement.

A further phase of cooperation may see the development of a larger gas exploration and production project in Uzbekistan’s Ustyurt region. In 2009 the Dzhel natural gas field was discovered on the Ustyurt plateau. Once geological exploration is accomplished, Gazprom will have an exclusive right to participate in negotiations with the Republic of Uzbekistan on the discovered fields development under production sharing agreements.

**Turkmenistan**
In 2003 the 25-year Agreement was signed for Russia and Turkmenistan to partner up in the gas industry. OAO Gazprom and Turkmenistan’s national gas trader Turkmenneftegaz are the companies authorized to implement the Agreement. Gazprom Export and Turkmenneftegaz followed up with a long-term contract, spanning the same time period, for the purchase and sale of Turkmen gas.

**Kyrgyzstan**
In 2003 Gazprom and the Government of the Kyrgyz Republic signed the long-term Agreement of Cooperation in Gas Industry for the period of 25 years.

In 2008 the licenses were granted for geological exploration of the Kugart and Eastern Mailu-Suu IV areas.

At the end of the same year Gazprom accomplished the geological exploration in the said areas.

In 2008 OAO Gazprom and the Government of the Kyrgyz Republic signed the Memorandum of Understanding to develop cooperation within the privatization of a part of the state-owned stake in OAO Kyrgyzgaz.

In April 2014 Gazprom and Kyrgyzgaz entered into the Purchase and Sale Agreement for a 100% stake in KyrgyzgazProm (wholly-owned subsidiary of OAO Kyrgyzgaz) on the basis of the Intergovernmental Agreement signed by Kyrgyzstan and Russia in 2013. The company is the sole importer of natural gas to Kyrgyzstan and owner of the country’s gas transmission and distribution systems. “The acquisition of KyrgyzgazProm is a natural follow-up of our long-standing relations with Kyrgyz partners. Gazprom receives a direct access to Kyrgyzstan’s market, and the country has guarantees of reliable gas supplies as well as a sound investment in an extensive retrofit and upgrade of gas transmission and production capacities. Gazprom becomes a strategic investor in the Kyrgyz economy,” said Alexey Miller, Chairman of the OAO Gazprom Management Committee.

**Tajikistan**
The cooperation between the Government of the Republic of Tajikistan and OAO Gazprom is regulated by the long-term (until 2028) Agreement on Strategic Cooperation in Gas Industry of May 15, 2003.

In 2008 OAO Gazprom and the Tajik Government signed the Agreement on General Principles for Geological Exploration of Oil and Gas Prospects in the Republic of Tajikistan (Rengan, Sargazon, Sarykamysh and West Shohambary). ZAO Gazprom Zarubezhneftegaz is the Gazprom subsidiary operating the Company’s projects in Tajikistan.

Geological exploration of the Sargazon and Rengan licensed areas is completed. The decision is taken to terminate the right to use the specified areas due to high geological, technical and economic risks related to their development.
By now, drilling of the Shakhrinav-1p ultra-deep prospecting well has been completed and testing operations have started. Besides, Gazprom extended licenses for hydrocarbons prospecting and exploration within the Sarykamysh and West Shohambary areas.

What international hydrocarbons extraction projects is Gazprom involved in?
As of late 2013 Gazprom Group was involved in 15 international natural resource projects. Moreover, since August 2009 OAO Gazprom Neft holds a controlling stake in Serbia’s Naftna Industrija Srbije. (at the moment the share of Gazprom Neft in NIS is 56.5%).

Algeria
In 2008 Gazprom EP International B.V., a member of Gazprom Group, was announced as the winner of the hydrocarbons exploration and production tender for the onshore El Assel area located in the Berkine Basin of Algeria. According to the tender results, a contract was signed with Algeria’s National Agency for the Valorization of Hydrocarbon Resources (ALNAFT), which came into effect on May 3, 2009.

Gazprom EP International B.V. is the operator of the said project in partnership with Algerian State Oil and Gas Corporation Sonatrach. Gazprom and Sonatrach hold 49% and 51% stakes in the project accordingly.

In March 2010 Gazprom EP International B.V. began drilling the first exploratory well Rhourde Sayah-2 within the El Assel licensed block. In November 2010 hydrocarbon reserves were discovered there: the daily production rate from the Ordovician deposits reached some 60 thousand m$^3$ of gas and 49.38 t of oil.

Vietnam
Vietgazprom, a joint operating company (JOC) set up by OAO Gazprom and Vietnam national petroleum
corporation Petrovietnam, performs geological exploration of block 112 offshore the Socialist Republic of Vietnam. The contract stipulates hydrocarbons prospecting, exploration, production and marketing.

In 2007 a commercial gas inflow was reported during the first prospecting well testing in Bao Vang as part of geological exploration of block 112 offshore Vietnam in the Gulf of Bac Bo. The discovered field contained gas condensate. In 2009 natural gas reserves were uncapped in the neighboring area of Bao Den.

In 2008 OAO Gazprom and Petrovietnam signed a 30-year Oil and Gas Contract for blocks 129, 130, 131, 132 offshore the Republic of Vietnam. JOC Vietgazprom acts as the project operator.

In 2009 OAO Gazprom and Petrovietnam signed an Addendum to the Oil and Gas Contract for block 112. The Addendum makes the terms and conditions of the Contract compliant with the decisions previously taken by the Vietnamese Government on extending the scope of the Contract to cover adjacent blocks and on executing both Oil and Gas Contracts (for block 112 and blocks 129 through 132) by a single operator – the Vietgazprom company.

OAO Gazprom and Petrovietnam inked the Strategic Partnership Agreement in 2008. As part of the document, an agreement was signed in 2012 between Petrovietnam and Gazprom for the latter to join the development project for blocks 05.2 and 05.3 located offshore Vietnam in the South China Sea. The document provides for Gazprom to receive a 49% stake in the Production Sharing Agreements setting forth the terms and conditions of the project. The Russian party to the project is represented by Gazprom EP International.

In March 2013 Gazprom Marketing & Trading Singapore and Petrovietnam Gas (Vietnamese joint stock corporation) signed Heads of Agreement for LNG supply to the Thi Vai terminal in southern Vietnam.

In October 2013 Gazprom and Petrovietnam launched commercial gas production from the Moc Tinh and Hai Thach fields of licensed blocks 05.2 and 05.3 offshore Vietnam, with recoverable gas and

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**Azero, Ipati and Aquio licensed blocks in Bolivia**

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International Projects

condensate reserves amounting to 35.9 billion m$^3$ and 15.2 million tons respectively.

In November 2013 Gazprom and Petrovietnam signed the Agreement on setting up a joint venture to produce NGV fuel. Setting up the Russian-Vietnamese joint venture named PVGAZPROM Natural Gas for Vehicles represents a practical step in implementing the agreements previously reached with the Vietnamese authorities on using natural gas as a vehicle fuel that stipulate, among other things, conversion of public transport in Ho Chi Minh City to NGV fuel.

Bolivia

In 2007 OAO Gazprom and YPFB signed a Memorandum of Understanding. The Memorandum stipulates cooperation in the Bolivian hydrocarbons exploration and production sector, investigation of the prospects for joint infrastructure projects as well as education and retraining of oil and gas sector experts.

In 2008 OAO Gazprom (through its subsidiary Gazprom Latin America B.V.), Total and YPFB signed a Memorandum of Understanding envisaging joint development of the Azero block. In exchange for participation in the project, Total proposed its stakes in other Bolivian assets, namely Ipati and Aquio.

Upon approval of this agreement by the country’s supreme authorities in 2013, Gazprom Group’s stake in the project made up 20%, while Total and Argentinian TecPetrol obtained 60% and 20% accordingly.

The project participants are going to conduct joint exploration and development activities within the said licensed blocks. At present, the project is at the practical stage, exploratory drilling is underway to prove the extension of the Incahuasi geological structure in the southern direction.

In August 2013 the Service Contract was signed for hydrocarbons exploration and development within the Azero block. The contract is valid for 40 years, with exploration activities to be conducted over a five-year period. At the first stage of geological exploration the minimal amount of investments will be to USD 130 million. According to the contractual terms and conditions, the discovery of hydrocarbons which the stakeholders find commercially recoverable will lead to setting up a tripartite joint venture, in which the Russian and French companies will hold 22.5% each and Bolivian YPFB – 55%.

Venezuela

OAO Gazprom operates in Venezuela according to the Memorandum of Understanding signed in January 2005 with Venezuelan state-run oil and gas company PDVSA. The document implies the possible participation of parties in joint oil and gas projects.

In 2005 OAO Gazprom was announced the winner of the tender for exploration and development of natural gas fields in the Gulf of Venezuela as part of the Rafael Urdaneta project (Urumaco I and Urumaco II blocks).

In 2011 OAO Gazprom and PDVSA signed the Memorandum of Understanding stipulating possible creation of a joint venture for the Robalo gas field development in the Gulf of Venezuela.

Moreover, in order to execute projects in Venezuela, the National Oil Consortium (NOC) was established by the major Russian oil and gas companies. OAO Gazprom Neft acquired the status of the project leader at the stage of preparations for the field development. OAO LUKOIL, OAO NK Rosneft and TNK-BP also participate in the project.

NOC and PDVSA set up the PetroMiranda joint venture to develop the Junin-6 block.

In 2009 Gazprom and PDVSA signed an agreement on creating the Servicios VenRus joint venture with PDVSA holding a 60% stake and OAO Gazprom – a 40% stake. The joint venture provides services at the PDVSA production facilities, particularly installation and repair of compressor stations,
cleaning of oil sludge ponds, drilling and overhaul of wells, maintenance of drilling rigs as well as gas processing.

In 2010 PDVSA and Servicios VenRus inked two framework contracts: on engineering, procurement and construction of the Soto 1 plant for deep fractionation of associated gas; and on engineering, procurement and construction of compression platforms for associated gas produced from oil fields around Lake Maracaibo.

Libya
Between 2006 and 2007 as a result of the tender procedures Gazprom obtained the right to explore and develop hydrocarbons in the promising licensed blocks No. 19 (offshore the Mediterranean Sea) and No. 64 (300 km south of Tripoli).

The projects are regulated by the Exploration and Production Sharing Agreements (EPSA) signed with Libya’s National Oil Corporation (NOC). By early 2011, seismic survey had been completed and preparations for exploratory drilling had been made for both projects. Drilling of an exploratory well was conducted at block No. 64, however, after the start of armed hostilities in the region, the well was abandoned.

In 2007 following the asset swap deal with BASF, Gazprom acquired a 49% stake in Libya’s oil concessions C96 and C97 owned by Wintershall. These concessions are governed by the agreements effective until 2026. The concessions include nine fields with As Sarah as the largest. In 2010 concessions C96 and C97 yielded 1.92 million t of oil, 0.1 million t of condensate and 227 million m$^3$ of gas.

Pursuant to the Farmout Agreement for the Elephant project Production Sharing Agreement, Gazprom was to acquire 50% of Eni’s stake in the consortium participating in Libya’s Elephant oil field development under the PSA, that was 33.33% of the international consortium.

OAO Gazprom Neft may directly acquire the stake in Elephant and join the project.

The parties will resume the negotiations after things settle down in Libya.

Gazprom is also looking into its potential involvement in oil and gas projects in Bangladesh, Egypt, Pakistan, Iran, Sri Lanka, Uruguay, Brazil, the Dominican Republic, Tanzania, Mozambique, Myanmar and some other countries.
Financial highlights for 2013:

Gazprom Group’s earnings (net of VAT, excise and other payments) – RUB 5.247 trillion

OAO Gazprom’s net profit – RUB 811.5 billion

What are Gazprom’s annual earnings?
In 2013 Gazprom earned RUB 5.247 trillion.

How much does Gazprom pay in taxes?
Gazprom channels its taxes and other obligatory payments at all levels as required by applicable tax legislation.

Thus, the Company paid RUB 980 billion in taxes and other payments in 2007, RUB 1.1 trillion in 2009, RUB 1.7 trillion in 2011 and RUB 1.8 trillion in 2013.

What does Gazprom spend money on?
Gazprom commits multibillion investments into the core businesses, thus securing operational reliability
Funds will be allocated for the development of the underground gas storage sector, in particular, the expansion of the Punginskoye and Kasimovskoye UGS facilities as well as for the upgrade of the Sovkhoznaya, Severo-Stavropol’skoye UGS facilities and the Peschano-Umetskaya gas storage.

The Program stipulates allocation of funds for the construction and expansion of gas processing capacities, upgrade of gas transmission facilities, retrofitting, upgrade and expansion of gas production facilities as well as production drilling in fields and at UGS facilities, and exploration activities.

The 2014 Long-Term Financial Investment Plan stipulates, inter alia, Gazprom’s implementation of the South Stream project, construction of an LNG plant near Vladivostok as well as allocation of funds in OOO Gazprom Gazomotornoye Toplivo activities aimed at promoting use of natural gas as a vehicle fuel. The Plan also envisages funding projects in Algeria, Bolivia, Libya, the UK, Uzbekistan and Vietnam.

How does Gazprom spend its money?
While running their businesses, Gazprom’s subsidiary companies consume over 600 thousand items of materials and equipment, incurring substantial costs. It is obvious that Gazprom’s final operating results directly depend on the procurement policy efficiency.

The lineup of products required by gas industry companies is roughly the same. In this context, with a view to counter the price bargaining power of suppliers, the bulk of materials and equipment should be acquired through a single channel.

In Gazprom Group these functions are charged to a special-purpose subsidiary company — OOO Gazprom Komplektatsiya. It is inexpedient, however, to vest this unit with 100% of procurement, since each member company has its specific features.
Moreover, subsidiaries may have unforeseen needs in this or that product (for instance, in case of emergency), which have to be met in a very prompt manner. That is why, around 80% of Gazprom Group’s current procurement requirements are satisfied via Gazprom Komplektatsiya, with the remainder acquired by subsidiaries independently.

OAO Gazprom Corporate Expense Management Department acts as a central body for managing purchases in Gazprom Group. Tender notices are published at the website of OAO Gazprom (www.gazprom.com) in the Tenders section, at www.zakupki.gov.ru and in print media. The annual plan of Gazprom Group’s competitive purchases is also available on the website.

Gazprom has long been focused on domestic manufacturers in its procurement policy. The share of imports in OOO Gazprom Komplektatsiya’s purchases is declining: while in 2006 the purchases from beyond the former Soviet Union accounted for 14.7% of the overall procurement, this figure shrank to 9.5% in 2010 and some 5% in 2013. At present, Gazprom acquires abroad mainly unique products and those unrivaled in Russia.

Such an approach is favored by Russian manufacturers. For instance, Russia’s leading machine-building companies supply Gazprom with gas compressor units at a far lower price than for customers abroad.

In recent years Gazprom has been actively developing the practice of tender-based awarding of construction contracts. The contract awarding to construction companies on the tender basis is planned to be gradually increased to 90% for new facilities.

It is worth mentioning that owing to a focus on Gazprom’s promising projects, Russia develops new production facilities and enhances its production technologies. For instance, Gazprom’s needs for high-quality large-diameter pipes have triggered their manufacturing at Russia’s major pipe plants. It wouldn’t be an exaggeration to say that Gazprom’s product orders represent effective investment demand in the domestic industry.

**Isn’t Gazprom’s debt burden too heavy?**

Gazprom Group’s net debt (according to accounting statements prepared in compliance with international standards) as of December 31, 2013 amounted to RUB 1.113 trillion.

Although this figure might seem impressive, in fact it is quite common among global energy companies. Firstly, repayment is spaced out for many years ahead. Secondly, no company ever engages in large-scale projects entirely on its own. No pragmatic international lender would give the Company a cent if they had the slightest doubt about its trustworthiness.

Both domestic and international investors lend eagerly to Gazprom. Even in the crisis year of 2009 Gazprom attracted very favorable investments. Thus, for the first time in its history the Company issued short-term European commercial papers. That instrument allowed Gazprom attracting investments at the rate more than twice as low as the standard Eurobond rates.

Gazprom takes comprehensive measures to manage its loan portfolio. The key debt ratios are level with the world’s leading oil and gas companies and are comfortable for Gazprom. Thus, according to the results of 2013 the total debt/EBITDA (earnings before interest, taxes, depreciation, and amortization) ratio was maintained at a low level –0.90, the net debt/EBITDA ratio – 0.55. It means that Gazprom can redeem its total debt using an operating cash flow generated just over 6 months. The Company ensures such results both due to low debt cost and a number of measures taken. In particular, Gazprom is active in developing the centralized cash pooling system that enables mobilization of internal financial resources, thus reducing the circulating capital and the demand for loans and improving the quality of...
Gazprom’s policy is to stay focused on its core business, i.e. hydrocarbons production, transportation, storage and processing as well as the power industry development. However, some time ago Gazprom owned a significant share of non-core assets. They were mainly acquired over the 1990s, when many Russian consumers practiced non-cash gas payments in securities or other cash equivalents. By now, non-core assets have almost been sold out. According to the results of 2013, Gazprom earned RUB 7.05 billion on non-core/ineffective asset sales (RUB 4.31 billion disregarding the Group’s in-house deals).

### Gazprom in Questions and Answers

#### OAO Gazprom’s debt structure by term of borrowings, %

<table>
<thead>
<tr>
<th>Term of Borrowings</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>32</td>
<td>26</td>
<td>15</td>
<td>24</td>
<td>22</td>
<td>18</td>
</tr>
<tr>
<td>1-2 years</td>
<td>13</td>
<td>10</td>
<td>13</td>
<td>17</td>
<td>19</td>
<td>13</td>
</tr>
<tr>
<td>2-5 years</td>
<td>20</td>
<td>33</td>
<td>42</td>
<td>38</td>
<td>33</td>
<td>36</td>
</tr>
<tr>
<td>More than 5 years</td>
<td>35</td>
<td>31</td>
<td>31</td>
<td>21</td>
<td>26</td>
<td>33</td>
</tr>
</tbody>
</table>

Is it true that many of Gazprom’s subsidiary companies have no relation to its core business?

Today Gazprom’s policy is to stay focused on its core business, i.e. hydrocarbons production, cash management. Moreover, much attention is paid to Gazprom’s projects involving project finance.

Gazprom was rated at the investment grade level by three most reputable international rating agencies: Standard & Poor’s, Fitch, and Moody’s.

### Proceeds from non-core asset sales, RUB billion

<table>
<thead>
<tr>
<th>Actual proceeds</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual proceeds</td>
<td>36.2</td>
<td>6.9</td>
<td>5.1</td>
<td>12.3</td>
<td>7.1</td>
<td>7.05</td>
</tr>
</tbody>
</table>

including those disregarding the Group’s in-house deals

| Actual proceeds | 34.0 | 4.2  | 4.8  | 8.2  | 6.1  | 4.31 |

Chapter 11
Gazprom in Power Industry

Why is Gazprom engaged in the power generation business?
In order to become a global energy leader, Gazprom needs to evolve as a company spanning the entire process chain – from production to sales of both primary energy carriers and final products, including electricity.

Gas and power generation business mergers represent a trend nowadays observed all over the world. For instance, the merger of E.ON (energy) with Ruhrgas (gas) and Gaz de France with Suez in Europe resulted in a considerable synergetic effect.
Gazprom in Questions and Answers

Direct involvement of Gazprom as a prominent energy resource supplier in power generation and distribution projects will eventually make it possible to normalize Russia’s fuel mix, work out and implement effective schemes for balanced consumption of coal and gas and thereby prevent wasteful consumption of blue fuel. It is also important that Gazprom’s participation in the power sector will enable the Company to enjoy significant economic benefits owing to the introduction of the most efficient schemes of power supply to production companies of the Group.

Gazprom’s conversion into a global vertically integrated energy company with significant power assets is needed not only by the Company itself, but by the shareholders as well. Strengthening the Company’s positions in the power industry will allow Gazprom to increase the attractiveness of its shares in the market.

What areas of the power sector is Gazprom involved in?

In April 2007 OAO Gazprom Board of Directors approved the Company’s Power Generation Strategy. In particular, the document stipulates the implementation of measures aimed at enhancing the power sector capitalization in the following areas:

- acquisition of generating companies;
- construction of new efficient capacities and upgrade of the existing ones to decrease the energy intensity of power generation;
- advancement of the power distribution business;
- development of a network company.

What assets does Gazprom own in Russia’s power industry?

Between 2007 and 2008 as a result of the power industry reform in Russia and the participation in additional share issues of generating companies, Gazprom Group substantially achieved its strategic goals to enter the power generation business.

The Group consolidated controlling stakes in OAO Mosenergo, OAO Second Wholesale Generating Company (OGK-2), OAO First Territorial Generating Company (TGC-1) and OAO MOEK (Moscow United Energy Company).

Gazprom Group’s generating companies have significant competitive advantages and complement each other in a seamless way.

Mosenergo is the largest generating company in Russia with a high factor of installed capacity utilization. The company is a national leader in the commissioning of modern combined cycle gas turbines.

MOEK is an infrastructure company supplying heat and hot water to Moscow and its suburbs. Due to OAO MOEK merging with Gazprom Group in 2013 it became possible to reach synergy in terms of fuel costs reduction and shifting loads of MOEK boiler houses to Mosenergo power plants, as well as to enhance the efficiency in managing the heat supply system of the Russian capital.

TGC-1 is the main generating company in Northwestern Russia. The share of hydro power in the company’s installed capacity is above 40%.

Being established through a merger of OAO OGK-2 and OAO OGK-6, OGK-2 is the largest heat generating company in Russia with an installed capacity of some 18 GW. The merger is aimed at a considerable synergetic effect, cost reduction and higher capitalization of the merged company through the optimization and centralization of procurement activities, development of a unified marketing strategy, reduction of redundant functions and administrative personnel, optimization of investments as well as efficient management of fuel costs when distributing loads among power plants.

OGK-2 comprises one of the largest gas-fired power stations in Russia – the Surgut SDPP-1 as well as the
Gazprom Group’s generating assets in Russian Federation as of December, 31 2013

Kirishi SDPP, Krasnoyarsk SDPP-2, Novocherkassk SDPP, Pskov SDPP, Ryazan SDPP, Serov SDPP, Stavropol SDPP, Troitsk SDPP, Cherepovets SDPP and Adler TPP.

The installed capacity of the power stations owned by Gazprom Group’s generating companies makes up some 38 GW or 17% of Russia’s total installed capacity.

Gazprom is the largest owner of generating assets in Russia and is among the top ten power producers in Europe.
What is the structure of Gazprom Group’s power assets?
Gazprom’s generating assets (OAO Mosenergo, OAO TGC-1 and OAO OGK-2) are consolidated on the books of a specialized subsidiary company – OOO Gazprom Energoholding – established as part of OAO Gazprom Power Generation Strategy. This enables to create an effective management system based on unified corporate standards. Gazprom Energoholding is responsible for Gazprom’s power generation strategy development (fuel supplies, heat and power marketing, new generating capacities, etc.). The subsidiary also interacts with state authorities and industry regulators in order to promote a common stance on all the principal matters.

OOO Mezhregionenergosbyt (Gazprom Group-owned company) is one of the Russian energy trade leaders. The company supplies electric power to more than 700 big and medium consumers in 47 Russian Federation constituent entities. It’s hugely represented both at the wholesale and retail electricity markets, providing above 96% of electricity consumed by Gazprom Group affiliates as well as supplying electric power to third-party consumers.

The power facilities of Gazprom Group’s gas production and gas transmission companies are leased out to the corporate network company OOO Gazprom Energo (except for the facilities within the Unified Gas Supply System). At present, OOO Gazprom Energo manages over 10 thousand facilities in 42 constituent entities of the Russian Federation.

How does Gazprom’s power business evolve?
The status of Russia’s major owner of generating assets is also supported by a large-scale investment program.

Investment projects are implemented in line with the obligations assumed.

Gazprom Group investment program is one of the largest in the Russian power industry. The generating companies of Gazprom Group implement the investment program in accordance with CSA ensuring a significant cash flow through selling electricity and the capacity of the new power units. The 2007-2017 increment of new capacity in Russia due to the CSA program implementation by the Group’s companies will amount to some 9 GW (57% of the capacities were commissioned as of December 31, 2013).

420 MW of the new generating capacities in Russia were commissioned by the Group in 2013 as following:
11. Gazprom in Power Industry

- Adler TPP (OAO OGK-2) – two CCGTs-180 of 360 MW total capacity
- Lesogorsk HPP (OAO TGC-1) 29.5 MW hydro-turbine unit No.5
- Svetogorsk HPP (OAO TGC-1) 30.5 MW hydro-turbine unit No.12

The state-of-the-art Adler TPP turned to be the key project for heat and power supply to basic infrastructure of the XXII Olympic Games and the XI Paralympic games held in Sochi from February to March of 2014. Large-scale reconstruction of the Vuoksa HPP cascade (major power source at the Karelian Isthmus) was completed with commissioning of two hydro-turbines by OAO TGC-1.

Besides, the construction of heating main from the Apatity TPP to Kirovsk (Murmansk Region) – the socially important investment project aimed at enhancing the quality and reliability of heat supply and reducing the share of costly fuel oil-fired power plants – was completed in 2013. Special attention is focused on the projects that help increase the efficiency and aim at new gas and coal-fired generating capacities development. Thus, modern combined cycle power units save some 30% of gas if compared to outdated steam power units. At the same time, Gazprom Group's power investment portfolio has the biggest share of innovative projects (combined cycle technologies, circulating fluidized bed technologies, gas turbine topping units) among all owners of generating assets in Russia. In addition, a program is being developed for upgrading obsolete and decommissioning inefficient equipment.

**Is Gazprom engaged in domestic heat and power supply?**

Gazprom Group's heat and power generation business is run by a specialized holding company – OAO Gazprom Teploenergo. The Holding implements investment projects for upgrade and rehabilitation of heat supply systems, construction of gas-fired unit-wise boiler houses, cogeneration plants, as well as the grid upgrade and construction. Total investments into small-scale power generation exceeded RUB 59 billion since the company was established. OAO Gazprom Teploenergo currently operates 1,286 heat generating projects of above 7.7 thousand GCal/h total thermal power in 23 Russian regions.

**Does Gazprom participate in power projects abroad?**

Gazprom's marketing strategy provides for developing the power generation business internationally. Gazprom Group routinely monitors prospective markets for developing its electric power business, particularly, the European market (Germany and the Balkans), as well as the Asian one (Japan, China and Vietnam).

Gazprom implemented one of the major gas-fired projects in Armenia in 2013, i.e. commissioning of a 480 MW unit No.5 at the Hrazdan TPP. It allowed for shrinking the national energy deficit.

Last year Gazprom Group initiated the construction of generating facilities abroad. OOO Gazprom Energoholding in cooperation with NIS (Gazprom Group-owned company) signed the memorandum on construction of a 208 MW TPP in Pancevo (Serbia) in September, 2013. The TPP is intended to supply NIS refinery and HIP Petrohemija petrochemical plant (the NIS strategic partner). The plant commissioning is scheduled for 2017.

Gazprom effectuates electricity deals on foreign trading platforms via Gazprom Marketing & Trading.
Environmental impact mitigation – a priority for Gazprom

Chapter 12
Ecology and Energy Conservation

In 2013 Gazprom earmarked RUB 59.36 billion for environmental protection purposes.

In 2013 Gazprom Group saved 2.3 million t of fuel equivalent.

2013 – Year of Ecology in Gazprom

To what extent does Gazprom adhere to the commonly accepted principles of nature conservation and environmental protection? Gazprom runs its business in compliance with the environmental legislation of the Russian Federation, commonly accepted international principles and OAO Gazprom Environmental Policy based on such principles. In 2011 the Board of Directors approved the amended OAO Gazprom Environmental Policy and recommended that Gazprom Group companies adhere to it.

Environmental impact mitigation and natural resource conservation are the mainstays of OAO Gazprom’s
environmental activities. This is proved by the fact that despite an annually increasing scope of operations, the environmental impact made by OAO Gazprom subsidiary companies remains stably low and keeps declining as measured by a number of indicators. For instance, between 2009 and 2013 air emissions of all the Gazprom Group companies declined by 9.2%, amount of waste – by 9.9%, water consumption – by 11.3%.

Gazprom pays great attention to preventive environmental protection measures: the Environmental Inspectorate is operational in OAO Gazprom, all corporate project documents are reviewed by OAO Gazprom’s environmental experts.

Gazprom has the Environmental Management System that passed a certification procedure for the international ISO 14001:2004 standard compliance. Det Norske Veritas, an independent certification body, conducted the certification audit. OAO Gazprom Coordinating Committee for Environmental Protection and Energy Efficiency ensures the implementation of the corporate Environmental Policy and conducts the comprehensive evaluation of the Company’s environmental activities.

Gazprom was the first Company of the Russian fuel and energy complex to hold the Year of Ecology in 2013. Taking part in its activities were over 70 thousand employees of Gazprom Group and some 90 thousand involved volunteers (schoolchildren, students, members of employees’ families, representatives of local public). Throughout the country, over 4.1 thousand ha of territories were cleared of waste, more than 284 thousand trees were planted, over 18.7 million fish juveniles of valuable species were released to rivers and reservoirs, more than one thousand cars were converted to natural gas.

Considering the positive results of the Year of Ecology, the decision was made to hold the Year of Environmental Awareness in 2014. Special focus will be placed on promoting environmental awareness among the population and providing environmental education to employees of Gazprom and contracting organizations.

How much does Gazprom spend on environmental protection?
In 2013 Gazprom Group’s expenses associated with nature conservation topped a record level of RUB 59.36 billion. In particular, RUB 24.95 billion was allocated to the construction of facilities related to environmental protection, RUB 12 billion – to wastewater collection and treatment, RUB 5.82 billion – to the prevention of air and soil pollution. In the past five years the overall costs of Gazprom Group for nature protection made up about RUB 165.5 billion.

What are Gazprom’s energy conservation initiatives?
Gazprom’s energy conservation policy generally aims to reduce gas losses and process gas consumption, enhance and optimize operating modes of process facilities as well as introduce new energy saving technologies.

The 2011–2013 Energy Saving Program helped preserve 7.34 million t of fuel equivalent, including 6.13 billion m$^3$ of natural gas and 790.8 million kWh of electricity, that resulted in the prevention of greenhouse gas emissions of more than 23 million t of CO2-equivalent. By now, the Company adopted the Energy Saving Program over 2014 to 2016. It envisages the conservation of 6.23 million t of fuel equivalent, including 5.26 billion m$^3$ of gas and 566.4 million kWh of electricity. Associated petroleum gas (APG) utilization within Gazprom Group has demonstrated a steady increase in APG utilization efficiency – from 59% in 2009 to 90% in 2013.

Does Gazprom have any eco-friendly alternative to gasoline?
Natural gas represents the most acceptable alternative to petroleum types of fuel due to its economic, resource and environmental characteristics. Compressed
(pressurized) and liquefied natural gas used as a fuel enables to significantly enhance the cost effectiveness of road and railway transport and mitigate its environmental impacts.

At present, the Russian fleet of natural gas vehicles (NGV) is made up of nearly 86 thousand units, with 4.6% owned by Gazprom. The global NGV fleet exceeds 15 million units.

Currently Gazprom Group owns 264 CNG filling stations, including 58 CNG filling stations abroad (27 – in Belarus, 8 – in Armenia, 23 – in Europe). Today, NGV refuelling capacities are being pushed to Eastern Siberia and the Far East. CNG filling stations have been built in Bratsk. A methane filling station is being designed in Petropavlovsk-Kamchatsky.

Starting from 2012, Gazprom made great efforts to expand the Russian NGV market. With a view to step up the development of regional NGV markets from 2013, Gazprom has included projects for CNG filling station construction and motor vehicle conversion to natural gas into the Gasification Program. In 2013 investments into these projects totaled RUB 1 billion.

With a view to systematize the Company’s efforts in this area, a special-purpose company – Gazprom Gazomotornoye Toplivo – was set up. The company consolidates all the core assets related to the NGV fuel production and sales. In 2013 Gazprom’s large-scale activities aimed at converting motor vehicles to natural gas gained significant support from the Government and from the general public. Working contacts have been established at all levels of the government to further the project; and draft legislation has been prepared to provide the supporting legal framework. All key players in the Russian gas motor fuel market, including financial institutions, regional governments, equipment manufacturers, and major vehicle fleet operators, have been linked up into a single chain.
Chapter 13
Social Responsibility

Gazprom for Children program – Company’s major social project

Total number of employees: nearly 460 thousand people

Why is Gazprom called a socially responsible Company?
Gazprom’s large-scale activities are of strategic significance for Russia’s economic advancement and concern lots of people. Consequently, the crucial operating principles of Gazprom Group are as follows: pursuing the public interest, maximally contributing to the socioeconomic development of Russian regions, stimulating a favorable business climate throughout the country and supporting decent labor conditions, social and spiritual welfare of the people.
Gazprom in Questions and Answers

In this regard, the Company strives to secure the sustainable development of its business, paying great attention to both the economic and social aspects. Gazprom steadily pursues the following social responsibility principles: creating new jobs, implementing social programs for its employees, placing a focus on sponsorship and charity, taking environment and education related actions.

How does Gazprom follow the social responsibility principles in practice?

Year on year, Gazprom plays a more active role in social support projects by creating new jobs, rendering assistance to economically disadvantaged people, servicemen, World War II disabled veterans, implementing social support programs for indigenous peoples of the Far North, making investments in new production and social infrastructure facilities constructed throughout the Russian Federation. Particular attention is traditionally paid to supporting disabled children, orphans and boarding school inmates. The Company annually earmarks funds to build housing, kindergartens, health care centers, etc.

The Company fulfills all of its tax commitments. Furthermore, Gazprom is consistent in gasifying population centers across Russia.

In its sponsorship and charitable activities Gazprom is oriented towards reviving the spiritual and national values, supporting culture, sports, education and science, contributing to the sci-tech progress as well as promoting a healthy lifestyle.

Gazprom’s Christmas and New Year festivals for thousands of children from orphan homes and orphanages have become traditional. The Company renders assistance to the Children’s Radio.

Throughout many years OAO Gazprom has fruitfully cooperated with the Russian Orthodox Church. The reconstruction of the Trinity Cathedral in Yakutsk started and the construction of the Saint Life-Giving Trinity Cathedral in Petropavlovsk-Kamchatsky is reaching completion under support by the Company. The Company also continues to render assistance to the Charitable Fund for the purpose of restoring the Voskresensk New Jerusalem Stavropegial Male Monastery.

For the purpose of preserving the traditions of Russia’s multinational culture, promoting folk arts and fostering corporate identity, starting from 2005 Gazprom holds the corporate Fakel Festival bringing together amateur art teams from the Company’s subsidiaries and partner businesses. In May 2013 Belarus hosted the final round of the 5th corporate Fakel Festival that brought together more than 1,300 participants from Gazprom’s 36 subsidiaries as well as visitors from foreign partner-companies: CNPC (People’s Republic of China), OMV AG (Austria), GDF SUEZ (France), Comita (Slovenia). OAO Gazprom Transgaz Belarus teams took part in the Festival for the first time.

As part of the 30th anniversary of the third Contract for Russian natural gas supply to France a sponsorship project – The Rite of Spring ballet staged by the Mariinsky Theatre troupe under the direction of Valery Gergiev in the Theatre des Champs Elysees in Paris – was carried out with the support of OAO Gazprom and GDF SUEZ in honor of the 100th anniversary of The Rite of Spring ballet premiere.

Within the Year of the Russian Federation in the Kingdom of the Netherlands and the Year of the Netherlands in the Russian Federation Gazprom acted as a partner of the Russian Classical Music Festival in the Netherlands. The concerts and workshops of the leading Russian musicians took place in Amsterdam, Maastricht, Rotterdam and the Hague.

Gazprom is active in supporting the development of the national science and is the founder of a variety of Russia’s prominent non-profit research institutions and foundations, in particular, the Vernadsky Non-Governmental Ecological Foundation. The Company takes part in the annual awarding of the Global Energy
13. Social Responsibility

International Prize for outstanding discoveries, inventions and solutions in the energy sector. The Company also implements the projects aimed at supporting the national education and improving the quality of employees’ professional training.

Gazprom pays special attention to the development of sports and the promotion of a healthy lifestyle as well as actively interacts with the Ministry of Sport, Tourism and Youth Policy of the Russian Federation as well as sports federations.

The preparation for holding the XXII Winter Olympic Games and XI Winter Paralympic Games in Sochi was one of the most important national projects. Gazprom actively participated in constructing new sports facilities and the necessary infrastructure. In this way, the following facilities were constructed by the Company in Krasnaya Polyana: the Biathlon and Ski Complex, eight new cableways with the total length of over 17 thousand m and the Mountain Olympic Village for 1,100 skiers and biathletes.

The Company annually holds summer and winter Spartakiada Games for OAO Gazprom’s subsidiary companies as part of OAO Gazprom policy aimed at supporting sports and physical training in Russia.

Gazprom is the sponsor of the Zenit Football Club, the SKA and the Avangard Hockey Clubs (St. Petersburg and the Omsk Region respectively). The Company annually participates in financing rhythmic gymnastics, volleyball, chess, biathlon and sailing competitions.

The Company supports national sports federations, teams and individual athletes (both professionals and amateurs) as well as sports veterans.

What is the nationwide Gazprom for Children program?
As a traditional backer of children and youth, in 2007 Gazprom launched its largest social project – Gazprom for Children program.

The program goals include creating conditions for the intellectual, spiritual and physical development of younger generations in a harmonious manner, promoting a healthy lifestyle among the Russian youth, engaging as many children and teenagers as possible in sports, amateur art teams and clubs.

To achieve these goals, Gazprom:

- builds and retrofits sports facilities, versatile outdoor sports grounds;
- purchases the equipment needed for establishing sports and art teams, amateur art clubs;
- engages highly-skilled coaches and instructors to train children and teenagers;
- arranges festivals and sports competitions throughout the country.

Considerable efforts are also made under the Gazprom for Children program to develop the creative potential of younger generations.

Along with holding the traditional festive events for children in Russian regions, the Company funds amateur art teams and clubs involving dozens of thousands of children. All of them have an opportunity to try their skills within the Fakel Festival of amateur art teams and performers annually held by Gazprom. Every year young athletes may prove their sports achievements at summer and winter Spartakiada Games of OAO Gazprom.

1,028 sports and cultural facilities worth a total of RUB 18.77 billion were constructed and reconstructed as part of the Gazprom for Children Program implemented between 2007 and 2013. The total scope of charitable assistance aimed at promoting children’s sports and creativity, purchasing sports equipment and establishing sports clubs and hobby groups has amounted approximately to RUB 900 million over these years.
What are Gazprom’s programs to support its personnel?
As of late 2013, 459.5 thousand people were employed by Gazprom. The Company pays paramount attention to ensuring most decent labor conditions, providing a variety of social guarantees, benefits and compensations. Traditionally, continuous support is given to industry veterans, with a focus placed on their well-being.

Social and labor relations of employees and the administration are regulated by labor laws, the Industry Agreement for Oil and Gas Industry Organizations and Construction of Oil and Gas Facilities in the Russian Federation over 2011 to 2013, the General Collective Agreement of OAO Gazprom and its Subsidiary Companies for the period from 2013 to 2015 as well as collective agreements of subsidiary companies and organizations. There are a number of other documents in Gazprom regarding education, personnel management as well as health care services for employees and their families.

The most important of them is the Provision on Continuous Vocational Education and Training System for OAO Gazprom Employees. 261.8 thousand people upgraded their skills and passed professional retraining courses in 2013. In addition, Gazprom adopted the Provision on Psychological Support to Personnel Management in OAO Gazprom, the Provision on Health Care Services for OAO Gazprom Employees, Non-Working Pensioners and their Family Members, etc. A crucial social guarantee is the payment of extra pensions by Gazfond Non-State Pension Fund.

The Corporate Program for Housing Provision is being implemented in the Company with a view to attract young highly-qualified employees and employees, who are of a key importance for the Company. The program is based on the principle of co-financing: at the expense of employees with the involvement of Gazprom funds with the use of a bank mortgage.

With a view to improve the employees’ operational capabilities and living standards, when developing new oil and gas fields and constructing gas mains in the Far North, the Company has built a system of life support, medical and ecological as well as social and hygienic monitoring for Gazprom Group’s employees and their family members. In order to enhance the effectiveness and accessibility of medical services, especially in field camps, the Company developed a corporate telehealth network.

In order to provide Gazprom’s managerial staff with financial incentives for the Company’s efficient development, in 2006 Gazprom introduced a financial motivation system for the managers of OAO Gazprom and its major subsidiaries, which includes an annual bonus system and a program for the Company’s managers participation in the Charter capital of the Company.
Chapter 14
Management

The Board of Directors administers general management in the Company, save for those matters that are, under the Federal Companies Act, the prerogative of the General Shareholders Meeting.

The Board of Directors assures the advancement of the goals and vision of the Company as set forth in its Articles of Association.

The principal duties of the Board of Directors are to set the Company’s development strategy so as to maximize capitalization and investment appeal, to determine the Company’s asset management policy and to implement efficient controls over the Company’s financial and business performance.

(From the Provision on OAO Gazprom Board of Directors)

The Management Committee is a collective executive body that runs the Company on a day-to-day basis.

The Management Committee contributes to the drafting of the Company’s strategies and policies and sees to it that the same are properly implemented; it also oversees compliance with resolutions of the General Shareholders Meeting and the Board of Directors.

The main duties of the Management Committee are to ensure reliable operation of the Unified Gas Supply System (UGSS) and steady gas supply to consumers, to manage the Company’s assets so as to maximize returns, to improve internal controls and risk management, and to advocate the lawful rights and interests of the Company’s shareholders.

(From the Provision on OAO Gazprom Management Committee)
VIKTOR ZUBKOV  
Chairman of OAO Gazprom Board of Directors,  
Russian Special Presidential Representative for  
Cooperation with Gas Exporting Countries Forum

Viktor Zubkov was born on September 15, 1941 in the  
settlement of Arbat, Kushvinsky District, Sverdlovsk Region.

Education  
He graduated from the Faculty of Economics,  
Leningrad Agricultural Institute.

Viktor Zubkov holds a PhD in Economics.

Professional experience  
Viktor Zubkov headed a number of agro-industrial  
enterprises and specialized departments of local  
authorities in the Leningrad Region.

Committee of the St. Petersburg Mayor Office.

Tax Service – Head of the St. Petersburg State Tax  
Inspection.

1999–2001. Deputy Minister for Taxes and Levies of  
the Russian Federation – Head of the St. Petersburg  
Department of the Russian Federation Ministry for  
Taxes and Levies.

2001–2004. First Deputy Finance Minister of the  
Russian Federation, Acting Chairman of the Russian  
Financial Monitoring Committee.

Monitoring Service.

Federation.

2008–2012. First Deputy Prime Minister of the  
Russian Federation.

Since 2012 – Special Presidential Representative  
for Cooperation with Gas Exporting Countries Forum.  
Chairman of OAO Gazprom Board of Directors since 2008.

ALEXEY MILLER  
Chairman of OAO Gazprom Management  
Committee

Alexey Miller was born on January 31, 1962 in  
Leningrad.

Education  
He graduated from Voznesensky Leningrad Finance  
and Economics Institute.

Alexey Miller holds a PhD in Economics.

Professional experience  
Upon graduation, Alexey Miller was Engineer-  
Economist at the General Planning Division of the  
Leningrad Civil Construction Research and Design  
Institute (LenNIIproekt under the Executive Committee  
of the Leningrad City Council).

1990. Junior Researcher, Leningrad Finance  
and Economics Institute; Section Head, Economic Reform  
Committee, Executive Committee of the Leningrad  
City Council.

1991–1996. Head of the Markets Monitoring  
Division, Foreign Economic Relations Directorate,  
External Relations Committee of St. Petersburg  
Mayor Office; Head of the Foreign Economic Relations  
Directorate; Deputy Chairman of the External  
Relations Committee.

1996–1999. Director for Development and  
Investments, Sea Port of St. Petersburg.

1999–2000. Director General of OAO Baltic Pipeline  
System.

2000. Deputy Energy Minister of the Russian  
Federation.

Since 2001 – Chairman of the Management  
Committee, OAO Gazprom.

Deputy Chairman of OAO Gazprom Board of Directors  
since 2002.
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BOARD OF DIRECTORS

Viktor ZUBKOV
CHAIRMAN OF OAO GAZPROM
BOARD OF DIRECTORS, RUSSIAN SPECIAL PRESIDENTIAL REPRESENTATIVE FOR COOPERATION WITH GAS EXPORTING COUNTRIES FORUM

Alexey MILLER
DEPUTY CHAIRMAN OF THE BOARD OF DIRECTORS, CHAIRMAN OF THE MANAGEMENT COMMITTEE, OAO GAZPROM

Andrey AKIMOV
CHAIRMAN OF OAO GAZPROMBANK MANAGEMENT BOARD, MEMBER OF OAO NOVATEK BOARD OF DIRECTORS

Farit GAZIZULLIN

Timur KULIBAEV
CHAIRMAN OF KAZENERGY (LEGAL ENTITIES ASSOCIATION), CHAIRMAN OF THE ATAMEKEN UNION (LEGAL ENTITIES ASSOCIATION) PRESIDUIUM

Vitaly MARKELOV
DEPUTY CHAIRMAN OF OAO GAZPROM MANAGEMENT COMMITTEE

Viktor MARTYNOV
RECTOR OF GUBKIN RUSSIAN STATE UNIVERSITY OF OIL AND GAS, PROFESSOR

Vladimir MAU
RECTOR OF THE RUSSIAN PRESIDENTIAL ACADEMY OF NATIONAL ECONOMY AND PUBLIC ADMINISTRATION

Valery MUSIN
HEAD OF THE CIVIL PROCEDURE DEPARTMENT, FACULTY OF LAW, ST. PETERSBURG STATE UNIVERSITY

Andrey SAPELIN
FIRST DEPUTY CHAIRMAN – MANAGEMENT COMMITTEE MEMBER OF VNESHECONOMBANK

Mikhail SEREDA
DEPUTY CHAIRMAN OF THE MANAGEMENT COMMITTEE – HEAD OF THE ADMINISTRATION OF THE MANAGEMENT COMMITTEE, OAO GAZPROM
Gazprom in Questions and Answers

Vsevolod CHEREPANOV
MEMBER OF THE MANAGEMENT COMMITTEE, HEAD OF THE GAS, GAS CONDENSATE AND OIL PRODUCTION DEPARTMENT

Alexey MILLER
CHAIRMAN OF THE MANAGEMENT COMMITTEE, DEPUTY CHAIRMAN OF THE BOARD OF DIRECTORS

Vitaly MARKELOV
DEPUTY CHAIRMAN OF THE MANAGEMENT COMMITTEE

Valery GOLUBEV
DEPUTY CHAIRMAN OF THE MANAGEMENT COMMITTEE

Alexander MEDVEDEV
DEPUTY CHAIRMAN OF THE MANAGEMENT COMMITTEE, DIRECTOR GENERAL OF OOO GAZPROM EXPORT

Elena VASILIEVA
DEPUTY CHAIRWOMAN OF THE MANAGEMENT COMMITTEE – CHIEF ACCOUNTANT

Sergey KHOMYAKOV
DEPUTY CHAIRMAN OF THE MANAGEMENT COMMITTEE, DIRECTOR GENERAL OF THE CORPORATE SECURITY SERVICE

Oleg AKSYUTIN
MEMBER OF THE MANAGEMENT COMMITTEE, HEAD OF THE GAS TRANSPORTATION, UNDERGROUND STORAGE AND UTILIZATION DEPARTMENT

Alexander KOZLOV
DEPUTY CHAIRMAN OF THE MANAGEMENT COMMITTEE

Vsevolod CHEREPAHNOV
MEMBER OF THE MANAGEMENT COMMITTEE, HEAD OF THE GAS, GAS CONDENSATE AND OIL PRODUCTION DEPARTMENT

Andrey KRUGLOV
DEPUTY CHAIRMAN OF THE MANAGEMENT COMMITTEE – HEAD OF THE DEPARTMENT FOR FINANCE AND ECONOMICS
14. Management

Nikolai DUBIK
MEMBER OF THE MANAGEMENT COMMITTEE, HEAD OF THE INVESTMENT AND CONSTRUCTION DEPARTMENT

Vladimir MARKOV
MEMBER OF THE MANAGEMENT COMMITTEE, HEAD OF THE DEPARTMENT FOR RELATIONS WITH THE RUSSIAN FEDERATION AUTHORITIES

Igor FYODOROV
MEMBER OF THE MANAGEMENT COMMITTEE, DIRECTOR GENERAL OF OOO GAZPROM KOMPLEKTATSIYA

Elena MIKHAILOVA
MEMBER OF THE MANAGEMENT COMMITTEE, HEAD OF THE ASSET MANAGEMENT AND CORPORATE RELATIONS DEPARTMENT

Yaroslav GOLKO
MEMBER OF THE MANAGEMENT COMMITTEE, HEAD OF THE INVESTMENT AND CONSTRUCTION DEPARTMENT

Kirill SELEZNEV
MEMBER OF THE MANAGEMENT COMMITTEE, HEAD OF THE GAS AND LIQUID HYDROCARBONS MARKETING AND PROCESSING DEPARTMENT, DIRECTOR GENERAL OF OOO GAZPROM MEZHREGIONGAZ

Dmitry LYUGAI
MEMBER OF THE MANAGEMENT COMMITTEE, HEAD OF THE PROSPECTIVE DEVELOPMENT DEPARTMENT
# Chapter 15

## Contacts

### Contact Information

<table>
<thead>
<tr>
<th></th>
<th>Details</th>
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<tbody>
<tr>
<td><strong>Full name:</strong></td>
<td>Open Joint Stock Company Gazprom</td>
</tr>
<tr>
<td><strong>Short name:</strong></td>
<td>OAO Gazprom</td>
</tr>
<tr>
<td><strong>Location:</strong></td>
<td>16 Nametkina St., Moscow, Russian Federation</td>
</tr>
<tr>
<td><strong>Postal address:</strong></td>
<td>16 Nametkina St., 117997, V-420, GSP-7, Moscow</td>
</tr>
<tr>
<td><strong>Phone:</strong></td>
<td>+7 (495) 719-30-01 (for inquiries)</td>
</tr>
<tr>
<td><strong>Fax:</strong></td>
<td>+7 (495) 719-83-33</td>
</tr>
<tr>
<td><strong>Official website:</strong></td>
<td><a href="http://www.gazprom.com">www.gazprom.com</a></td>
</tr>
<tr>
<td><strong>Email:</strong></td>
<td><a href="mailto:gazprom@gazprom.ru">gazprom@gazprom.ru</a></td>
</tr>
</tbody>
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### Information and Communications Department

<table>
<thead>
<tr>
<th></th>
<th>Details</th>
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<tbody>
<tr>
<td><strong>Phone:</strong></td>
<td>+7 (495) 719-46-00</td>
</tr>
</tbody>
</table>

### Shareholder Relations

<table>
<thead>
<tr>
<th></th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Phone:</strong></td>
<td>+7 (495) 719-49-86</td>
</tr>
<tr>
<td><strong>Fax:</strong></td>
<td>+7 (495) 719-39-37</td>
</tr>
</tbody>
</table>

### Investor Relations

<table>
<thead>
<tr>
<th></th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contact person:</strong></td>
<td>Andrey Baranov</td>
</tr>
<tr>
<td><strong>Phone:</strong></td>
<td>+7 (495) 719-34-83</td>
</tr>
<tr>
<td><strong>Fax:</strong></td>
<td>+7 (495) 719-35-41</td>
</tr>
<tr>
<td><strong>Email:</strong></td>
<td><a href="mailto:ir@gazprom.ru">ir@gazprom.ru</a></td>
</tr>
</tbody>
</table>

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Photos by OAO Gazprom  
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