

**MANAGEMENT REPORT  
OAO GAZPROM  
2008**

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*Notes:*

*In the present Management Report some of operating and economic parameters have been determined in accordance with IFRS principles and for the Group entities consolidated in the IFRS consolidated financial statements of OAO Gazprom for the year ended 31 December, 2008, therefore they can differ from similar parameters in reports of OAO Gazprom prepared under Russian statutory requirements.*

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

*Analysis of operating results should be read in conjunction with the audited consolidated annual consolidated financial statements for 2008, prepared in accordance with IFRS.*

## KEY PERFORMANCE INDICATORS

### Operating indicators

	As of 31 December,		Change, %
	2008	2007	
Natural gas reserves ABC <sub>1</sub> , trillion cm (tcm)	33.1	29.8	11.1
Crude oil and gas condensate reserves ABC <sub>1</sub> , million tons	2,888.8	2,722.4	6.1
Hydrocarbon reserves ABC <sub>1</sub> , bboe	217.4	196.4	10.7
Proved and probable reserves of hydrocarbons under SPE-PRMS Standards, bboe	140.2	136.5	2.7

	Year ended 31 December,		Change, %
	2008	2007	
Gas production, billion cm (bcm)	549.7	548.6	0.2
Crude oil and gas condensate production, million tons	42.9	45.3	-5.3
Hydrocarbon production, million boe	3,561.5	3,572.9	-0.3
Oil and gas condensate refining, million tons	40.1	38.2	5.0
Natural and associated gas processing, bcm	38.4	44.0	-12.7
Gas sales in Russia, bcm	292.2	307.0	-4.8
Gas sales to FSU countries, bcm	96.5	96.5	0.0
Gas sales to Europe and other countries, bcm	184.4	168.5	9.4

### Financial indicators and ratios

#### Income Statement highlights

(RR million)	Year ended 31 December,		Change, %
	2008	2007	
Sales	3,518,960	2,423,245	45.2
Operating profit	1,260,306	701,778	79.6
Profit for the year attributable to equity holders of OAO Gazprom	742,928	658,038	12.9
Adjusted EBITDA	1,463,805	891,715	64.2

#### Balance Sheet highlights

(RR million)	As of 31 December,		Change, %
	2008	2007	
Cash and cash equivalents	343,833	279,109	23.2
Total debt	1,365,764	1,510,666	-9.6
Net debt	1,018,346	1,228,583	-17.1
Equity, including minority interest	4,913,099	4,313,097	13.9

#### Ratios

	Year ended 31 December,		Change, %
	2008	2007	
Net earnings per share for profit attributable to equity holders of OAO Gazprom, RR	31.49	28.07	12.2
Total debt to equity, including minority interest, %	0.28	0.35	-20.0
Adjusted EBITDA to interest expense	24.43	11.58	111.0
Return on invested capital, %	0.22	0.26	-15.4

## **THE GROUP'S POSITION IN THE GLOBAL ENERGY INDUSTRY AND MAJOR RESULTS OF THE REPORTING YEAR**

The Gazprom Group (OAO Gazprom and its subsidiaries) is one of the world's largest oil and gas companies.

Gazprom's licensed areas contain about 70% of Russian explored gas reserves and about 19% of global gas reserves. The Group's share in the global gas production is 18%, which ensures its leading position among oil and gas companies. Gazprom is one of the top five Russian and top twenty world leaders for oil production and refining volumes. While dominating in the Russian and former Soviet Union (FSU) markets, the Group also accounts for 25% of gas supplies to Europe.

The Group is the sole owner and operator of the Unified Gas Supply System of Russia (UGSS) – the combined technological complex including gas production, processing, transportation, underground storage and distribution units. It comprises the world's largest gas transportation system stretching for over 159 thousand km.

Gazprom continues to gradually strengthen its position in the Russian and global energy industry. In 2008, Gazprom launched the Program for the Comprehensive Development of Fields in the Yamal Peninsula and in Adjacent Offshore Areas, one of the most promising locations of the Russian gas production. Gazprom implements the new gas transportation project – Nord Stream, which will enable the Group to not only diversify Russian gas transportation routes, including reduction of transit states risks, but also provide new opportunities to increase long-term gas exports.

As part of the strategic objective to diversify its activities, Gazprom increases its share in the oil business; diversifies its products through stage-by-stage involvement in production and delivery of liquefied natural gas (LNG); develops the electricity line of its business.

As a result of the chosen direction of development and the dynamics in commodity and financial markets in recent years, the Group received its record revenue of RR 3.52 trillion in 2008, which is 45.2% higher than the 2007 level.

Similar to other companies in Russia and abroad, the Group became affected by negative macroeconomic factors related to the increasing global economic crisis that had an adverse impact on its operating results in the 4<sup>th</sup> quarter 2008 (see *Operating Results* and *Key Risk Factors* for detailed information on the impact of the global economic crisis on the Group's operations). The negative macroeconomic background characterized by the slump in global oil prices in the second half of 2008 and an ongoing decrease in demand for fuel in export and domestic markets will have a significant impact on the Group's financial results in 2009.

The strategic objectives of the Group remain unchanged. Conservative approach to the assessment of volumes and gas selling prices historically used in the preparation of forecasts related to the commissioning of capacities to satisfy gas demand in key markets give grounds to believe that the Gazprom Group major strategic projects are sustainable to short-term and medium-term changes in the economic environment.

Therefore, the Group will continue pursuing its long-term strategy with respect to its core activities, including the development of the Yamal Peninsula. In view of the expected medium-term revival of world economy and restored demand for hydrocarbons, it is believed that this approach will give the Group a competitive advantage over those oil and gas companies which will have to significantly delay their strategic projects.

In addition, Management has determined on a complex of interrelated measures grouped by a number of key directions to ensure the sustainable financial position of OAO Gazprom and its gas-related subsidiaries as well as the efficient use of arising opportunities for the short-term and medium-term development.

*Preparation of 2009 budget options and budget forecasts for 2010–2011 taking into account various scenarios of global economy development*

The 2009 budget (financial plan) adopted late in 2008 by the Board of Directors of OAO Gazprom has been prepared based on the assumed price of URALS oil of U.S.\$ 50 per barrel. To be able to promptly react to the dynamics of external factors several alternative scenarios of the 2009 budget have been prepared proceeding from various scenarios of oil price movement (U.S.\$ 25, U.S.\$ 30, U.S.\$ 40, U.S.\$ 41 per barrel) and sale volumes of natural gas.

The investment program for 2009 is expected to be adjusted for changes in the sales revenue. Capital investment projects have been ranked in terms of the expected contribution of each project into the growth of production, transportation, storage and distribution volumes in the medium-term perspective. Such an underlying approach allows to concentrate financial resources of OAO Gazprom on the most important projects under various scenarios of oil price movements and changes in natural gas sales volumes.

The developed measures provide for the reduction of management expenses (primarily expenses on marketing, advisory, consulting and engineering services) of OAO Gazprom and its major subsidiaries involved in production, transportation, underground storage and processing of gas.

Priority is still given to the disposal of non-core assets of OAO Gazprom and its subsidiaries which is performed on the unified methodology basis and controlled by the head office, as well as to improvement of internal corporate structure of core assets management. Actions have been developed to optimize the number of staff at OAO Gazprom and its subsidiaries and associated companies.

*Establishment of a centralized liquidity management system*

Establishment of a centralized liquidity management system is carried out in two key directions: management of intra-group liquidity of Russian entities of Gazprom Group and organization of an international pool, including foreign subsidiaries. It is expected that implementation of this project would allow to mobilize internal financial resources of the Group and, accordingly, to reduce the volume of external borrowings, to optimize intra-group settlements, to optimize interest payments as well as to reduce the cost of banking service.

*Working capital management*

In the circumstances of deepening global economic crisis which adversely impacts contractors of OAO Gazprom and its subsidiaries, the priority in working capital management is given to increasing the turnover of accounts receivables. The corresponding measures include enhancing payment discipline among domestic and foreign customers of the Group, including by way of applying an advance system of settlements, by reducing advance payments to suppliers and contractors primarily in the area of capital expenditures, by reducing volumes of inventories and optimizing the purchase of commodity stocks for Gazprom Group entities.

*Effective debt management*

In the context of restrained access to debt finance and high borrowing costs the Group implements a number of measures to optimize its system of raising debt capital:

- the predominant use of internal resources to finance the Group's needs;
- negotiations with business partners for the purposes of using other project participants' own funds to finance the Group's projects;
- the strengthening of control over the Group's borrowings in power generation, the oil sector and other areas;
- consideration of the possibility to raise, if necessary, short-term loans and loans secured by export revenues as well as loans guaranteed by export agencies.

### *Financial risk management*

To mitigate credit risks and liquidity risks, the Group undertakes the following actions:

- setting risk limits for credit institutions that provide services to the Group;
- applying risk management procedures through foreign currency, commodity and similar forward and futures contracts;
- limiting the number of credit institutions servicing the Group entities to eight major banks;
- increasing efficiency of cash management;
- opening of a short-term credit line for OAO Gazprom as an additional instrument of managing current liquidity.

It is expected that the implementation of these anti-crisis measures will allow OAO Gazprom and its subsidiaries to generate sufficient cash flow to ensure liquidity and meet the scheduled financing needs of the Group's priority projects, and maintain the efficiency and profitability of its core activities.

## OPERATING RESULTS

### Reserves, exploration and production of hydrocarbons

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

	As of 31 December,	
	2008	2007
<b>Gas production</b>		
Assets, million RR	1,278,654	1,096,544
Share in total assets of the Group, %	17.8	16.1
<b>Oil and Gas Condensate production</b>		
Assets, million RR	669,016	704,395
Share in total assets of the Group, %	9.3	10.4
<hr/>		
	Year ended 31 December,	
	2008	2007
<b>Gas production</b>		
Capital additions million RR	224,176	187,486
Share in total capital additions of the Group, %	31.4	33.0
<b>Oil and Gas Condensate production</b>		
Capital additions million RR	79,489	62,427
Share in total capital additions of the Group, %	11.2	11.0

### Reserves

The Group estimates its hydrocarbon reserves in accordance with the SPE-PRMS Standards. As of 31 December, 2008 the evaluation covered 88%, 85% and 92% of natural gas, gas condensate and oil reserves, respectively, under ABC<sub>1</sub> classification accepted in Russia. According to the estimate the proved and probable reserves of the Group total 21.2 tcm of natural gas, 729.8 million tons of gas condensate, 1,278.2 million tons of oil, for a total of 140.2 bboe. The present value of Gazprom Group's hydrocarbon reserves is assessed at U.S.\$ 230.1 billion.

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

	As of 31 December,	
	2008	2007 <sup>(1)</sup>
<b>Natural gas</b>		
Share of ABC <sub>1</sub> reserves covered by the assessment under SPE-PRMS Standards <sup>(2)</sup>	88%	95%
Proved <sup>(3)</sup>		
	tcm	18.2
	tcf	642.8
Probable <sup>(3)</sup>		
	tcm	3.0
	tcf	105.9
Proved and probable <sup>(3)</sup>		
	tcm	21.2
	tcf	748.7
<hr/>		
<b>Gas condensate</b>		
Share of ABC <sub>1</sub> reserves covered by the assessment under SPE-PRMS Standards <sup>(2)</sup>	85%	90%
Proved		
	million tons	587.9
	billion barrels	4.8
Probable		
	million tons	141.9
	billion barrels	1.2



		<b>As of 31 December,</b>	
		<b>2008</b>	<b>2007<sup>(1)</sup></b>
Proved and probable			
	million tons	729.8	686.1
	billion barrels	6.0	5.6
<b>Crude oil</b>			
Share of ABC <sub>1</sub> reserves covered by the assessment under SPE-PRMS Standards <sup>(2)</sup>		92%	93%
Proved			
	million tons	713.1	727.0
	billion barrels	5.2	5.3
Probable			
	million tons	565.1	405.5
	billion barrels	4.1	3.0
Proved and Probable			
	million tons	1,278.2	1,132.5
	billion barrels	9.4	8.3
<b>Total</b>			
Share of ABC <sub>1</sub> reserves covered by the assessment under SPE-PRMS Standards <sup>(2)</sup>		88%	95%
Proved			
	million tons of fuel equivalent	22,863.2	22,994.5
	bboe	117.2	117.9
Probable			
	million tons of fuel equivalent	4,473.0	3,632.4
	bboe	23.0	18.7
Proved and probable			
	million tons of fuel equivalent	27,336.2	26,626.9
	bboe	140.2	136.5

Notes:

- (1) Gazprom Neft Group's reserves as of 31 December, 2007 were evaluated by Miller & Lents.
- (2) The ABC<sub>1</sub> classification accepted in Russia is based on analysis of geological parameters of reserves and evaluates the actual hydrocarbon reserves. SPE-PRMS Standards take into account not only the probability of hydrocarbon deposition in geological formations but also the economic feasibility of extraction of reserves, determined based on exploration and drilling costs, operating expenses for production and transportation, taxes, hydrocarbon selling prices and other factors. Thus SPE-PRMS information about proved and probable reserves of the Group can not be used for evaluation of reserves that were not subject to SPE-PRMS evaluation.
- (3) For Gazprom Neft Group commercial gas reserves were accounted for, including proved and probable reserves of 0.2 tcm and 0.02 tcm as of 31 December, 2008 and 2007, respectively. For other companies of the Group gas separation reserves were taken into account

The increase of proved and probable reserves of the Group when compared to the level as of the end of 2007 is explained by the inclusion into the estimate under SPE-PRMS Standards several fields the largest of which is Chayandinskoye with the total ABC<sub>1</sub> and C<sub>2</sub> natural gas reserves of 1,241 bcm and 50 million tons of oil reserves.

As of 31 December, 2008 the Group had licenses for ABC<sub>1</sub> hydrocarbon development in the following volumes: 33.1 tcm of natural gas, 1,287.1 million tons of gas condensate and 1,601.7 million tons of crude oil, for a total of 217.4 bboe.

As of 31 December, 2008 the Group's share in the audited proved and probable reserves of associated companies in Russia was 720.9 tcm of natural gas, 680.0 million tons of liquid hydrocarbons, for a total of 9.2 bboe.

The licensed areas of the Group in Russia contain over 70% of developed ABC<sub>1</sub> reserves.

The following table sets forth changes to the Group's ABC<sub>1</sub> reserves of natural gas, gas condensate and oil in the licensed areas in Russia in 2008:

	Gas, bcm	Condensate, million tons	Oil, million tons	Total, million boe
<b>Reserves as of 31 December, 2007</b>	29,785.4	1,212.5	1,509.9	196,421.8
Production (including losses)	-550.5	-8.0 <sup>(1)</sup>	-32.0	-3,542.4
Exploration results	583.4	6.9	54.1	3,889.2
Transfer of reserves discovered in 2008 to the Undistributed Subsoil Fund of Russia <sup>(2)</sup>	-25.0	-1.4	-3.1	-181.4
Receipt of licenses, including	3,326.6	77.7	67.9	20,727.0
due to opening new fields <sup>(2,3)</sup>	17.2	0.8	-	101.3
as a result of tenders	1.5	-	1.5	19.8
Returning the licenses	-0.2	-	-0.5	-4.8
Acquisition of assets	1.6	-	3.1	32.1
Disposal of assets	-	-	-	-
Revaluation	1.9	-0.6	2.3	23.1
<b>Reserves as of 31 December, 2008</b>	<b>33,123.2</b>	<b>1,287.1</b>	<b>1,601.7</b>	<b>217,364.6</b>

Notes:

- (1) Any changes in gas condensate reserves due to production are recognized as converted into stable gas condensate (C<sub>5+</sub>). The production volume of unstable gas condensate of Gazprom Group in 2008 was 10.9 million tons.
- (2) Under Russian law, the subsoil user does not have any vested right to develop reserves discovered in areas covered by exploration licenses or beyond the licensed areas. Such reserves shall be transferred to the Undistributed Subsoil Fund of the Russian Federation. Subsequently the subsoil user has a preference right to receive a license for their development.
- (3) Includes received licenses for development of the reserves discovered by the Group in prior years.

As compared with 2007 the ABC<sub>1</sub> hydrocarbon reserves of Gazprom Group increased by 3,337.8 bcm of natural gas, 74.6 million tons of gas condensate and 91.8 million tons of oil primarily as a result of licensing activity.

As of 31 December, 2008 and 2007 the ABC<sub>1</sub> hydrocarbon reserves of Gazprom Group did not include hydrocarbon reserves related to foreign projects of the Group due to their insignificant volumes as of the reporting dates.

### Exploration

The exploration work in Russia resulted in the increase of reserves by 583.4 bcm of natural gas and 61.0 million tons of crude oil and gas condensate. Recovery of natural gas reserves was 106.0%, of crude oil and gas condensate – 152.5%.

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

	Year ended 31 December, 2008	
	In Russia	Abroad
Total financing of exploration, RR billion	46.9	9.0
including expenses posted to capital investments	28.5	1.6
Exploration drilling, thousand meters	284.9	32.1
Completed exploration wells, items	80	4
including successful wells	50	1
Seismic exploration 2D, thousand line km	12.4	6.3
Seismic exploration 3D, thousand square km	6.6	0.9
Drilling throughput		
tons of fuel equivalent / m	2,669.3	-
boe / m	13,651.1	-

The main increase of C<sub>1</sub> natural gas reserves relates to the Semakovsky field of the Tazavskaya Bay shelf (146.4 bcm) and the Yuzhno-Russkoye field in western Siberia (47.6 bcm), of oil – to

the Priobsky (14.9 million tons), Urengoy sky (8.6 million tons) and Yamburgsky (7.2 million tons) fields also located in western Siberia.

To pursue the recovery of its hydrocarbon reserves, the Group has developed a long-term geological exploration program focusing on its production regions, the most important of which are the Nadym-Pur-Tazovsky region in western Siberia and the pre-Caspian oil and gas bearing provinces in southern Russia, as well as other promising gas production regions, such as the Yamal Peninsula in western Siberia, the Russian sea shelf of the Arctic seas (including the Obskaya and Tazovskaya Bays), eastern Siberia and the Far East.

The Group also intends to expand its reserves outside of Russia and participates in exploration projects in various countries and regions of the world, including Vietnam, India, Venezuela, Libya and Central Asia. In 2008 exploration work was carried out primarily in the Ustyurtsky region of Uzbekistan.

### Licensing

As of 31 December, 2008 the Group had 281 licenses for subsoil use for the purposes of prospecting, exploration and production of hydrocarbons:

License type	As of 31 December, 2008		Total
	In Russia	Abroad	
Exploration, development and production	66	5	71
Development and production	151	-	151
Geological study of subsoil	45	14	59
<b>Total</b>	<b>262</b>	<b>19</b>	<b>281</b>

In September 2008, in accordance with the resolutions of the Russian Government (No. 493-r dated 16 April, 2008, No. 650-r dated 6 May, 2008 and No. 666-r dated 6 May, 2008), the Group obtained licenses for a number of fields of federal importance without tender. In particular, Gazprom obtained licenses for the following fields: Zapadno-Tambeyskoye, Kruzenshternskoye, Malyginskoye, Severo-Tambeyskoye, Tasiyskoye and Tota-Yakhinskoye and Semakovskoe fields in the Yamal Peninsula, Kirinskoye on the shelf of the Okhotsk Sea, Antipayutinskoye in the Gydan Peninsula and Chayandinskoye in the Sakha Republic (Yakutiya) in eastern Siberia. As of 31 December, 2008 the total ABC<sub>1</sub> reserves of the fields amounts to 3,307.9 bcm of natural gas, 76.9 million tons of gas condensate and 66.4 million tons of oil, for a total of 20.6 bboe.

### Production

In 2008 the Group produced in Russia 549.7 bcm of natural and associated gas, 10.9 million tons of gas condensate and 32.0 million tons of crude oil, for a total of 3,561.5 million boe.

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

	Gas, bcm	Condensate, million tons	Oil, million tons	Total, boe
<b>Year ended 31 December, 2008</b>				
Production of Gazprom Group	549.7	10.9	32.0	<b>3,561.5</b>
Share of Gazprom Group in the production of associated companies	11.0	0.7	16.3	<b>189.9</b>
<b>Year ended 31 December, 2007</b>				
Production of Gazprom Group	548.6	11.3	34.0	<b>3,572.9</b>
Share of Gazprom Group in the production of associated companies	8.5	0.7	11.3	<b>139.2</b>

The Group's natural gas production was significantly affected by decreases in gas consumption in the end of 2008. In the first half of 2008, the Group's production was 5.5 bcm greater than the approved plan. In the second half of 2008 due to a decrease in gas consumption in the foreign and domestic markets the Group had to reduce its natural gas production by 16.8 bcm compared to the initial plan. The Group regulated its natural gas production volumes through less gas extraction in the fields in western Siberia.

The reduction in the crude oil production in 2008 of 2.0 million tons compared to 2007 was mainly due to depletion of the Sugmutskiye and Sporyshevsky fields. The production of oil in these fields reduced by 2.7 million tons compared to 2007.

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

	As of 31 December,		Change, %
	2008	2007	
Developing fields	122	122	-
Gas production wells	7,214	7,154	0.8
including active	6,723	6,640	1.3
Oil production wells	5,932	5,881	0.9
including active	5,444	5,342	1.9

In 2007–2008 Gazprom Group did not produce hydrocarbons outside the territory of the Russian Federation and therefore, did not own hydrocarbon production assets abroad as of 31 December, 2007 and 2008.

#### Main areas of capital expenditures

The main investments in the Group's gas production segment in 2008 are allocated to the development of the Bovanenkovskoye, Shtokmanovskoye and Prirazlomnoye fields, as well as development of the second pilot section of the Achimovsk formation of the Urengoiyskoye field and the Zapadno-Pestsovoe area, the Kharvutinskaya area of the Yamburgskoye field, the Zapolyarnoye, Novoportovskoye and Yen-Yakhinskoye fields. In 2008 Gazprom Group put into operation 117 new gas production wells in Russia.

The main investments in the oil production segment in 2008 were made in the Priobskoye and Ety-Purovskoye fields of Gazprom Neft Group. Construction of new wells in these fields allowed to significantly increase the oil production at these fields (Priobskoye – by 13.2%, Ety-Purovskoye – by 74.0%) by 2007. In total the Group put into operation 632 new oil production wells in 2008.

#### Sale of oil and gas condensate

In 2008 the Group sold 23.9 million tons of oil and stable gas condensate (22.7 million tons – in 2007).

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

In the second half of 2008 there was a significant reduction in oil prices. The average monthly price for BRENT crude oil decreased from approximately U.S.\$133.18 a barrel as of July 2008 to U.S.\$40.35 a barrel as of December 2008. The following table shows average monthly prices for BRENT and URALS crude oil in 2008 as per Platt's agency data:

Oil grade	January	February	March	April	May	June
	U.S.\$ per barrel					
BRENT <sup>(1)</sup>	92.02	95.04	103.66	108.97	122.73	132.44
URALS <sup>(2)</sup>	89.37	91.38	99.24	105.72	118.84	128.05
Spread URALS to BRENT	2.65	3.66	4.42	3.25	3.89	4.39

Oil grade	July	August	September	October	November	December
	U.S.\$ per barrel					
BRENT <sup>(1)</sup>	133.18	113.03	98.13	71.86	52.51	40.35
URALS <sup>(2)</sup>	130.09	111.90	97.49	70.78	51.47	39.92
Spread URALS to BRENT	3.09	1.13	0.64	1.08	1.04	0.43

Notes:

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

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

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

(million tons)	Year ended 31 December,		Change, %
	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>	
Russia	3.9	4.6	-15.2
FSU countries	3.3	2.5	32.0
Europe and other countries	16.7	15.6	7.1
<b>Total</b>	<b>23.9</b>	<b>22.7</b>	<b>5.3</b>

Note:

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

The increase in volumes of liquid hydrocarbons sold to FSU and Europe and other countries is explained by the increase in oil trade volumes on international markets due to favourable oil prices in the first half of 2008.

In 2008 the domestic sales of crude oil and gas condensate decreased to 16.3% of total oil and gas condensate sales of Gazprom Group compared to 20.3% in 2007. Additional volumes obtained as a result of the acquisition of an interest in OAO Tomskneft VNK, were allocated to the expansion of oil refinery volumes as the most effective use of the commodity.

### Reporting year events

In October 2008 the Group entered into an asset swap agreement with E.ON AG regarding joint participation in the development of the Yuzhno-Russkoye field. In the framework of the agreement a swap of assets is currently being negotiated; as a result of the negotiations E.ON may receive a 25% stake minus one ordinary share of Severneftegazprom that holds the license for the development of the Yuzhno-Russkoye field. The Yuzhno-Russkoye field is located in the Nadym-Pur-Tazovsky region. This field was brought on stream in 2007. It is expected to reach its projected annual capacity of 25.0 bcm of natural gas in the end of 2009.

In July 2008 ZAO Achimgaz, a joint venture of the Group and Wintershall Holding AG, commenced the commercial development of the first part of the Achimovsk formation of the Urengoiyskoye field. The development and production period will take about 43 years. In this period it is planned to produce about 200 bcm of natural gas and 40 million tons of gas condensate. The project capacity is about 8.3 bcm of gas and 2.8 million tons of gas condensate a year.

In February 2008 the Group entered into a shareholders' agreement with the French company Total S.A. and the Norwegian company StatoilHydro ASA to establish a special-purpose company, Shtokman Development AG, to manage engineering, financing, construction and exploitation of installations during the first phase of the development of the Shtokmanovskoye field. The Group's stake in the new company is 51%, and Total S.A. and StatoilHydro ASA own the remaining 25% and 24% interests, respectively. It is expected that the company will be the owner of the infrastructure at the first development phase of the Shtokmanovskoye field for a period of 25 years after the field is put into operation.

In the framework of the Group's activities in the development of hydrocarbon reserves abroad in 2008 the Group signed a contract on exploration of in the four new blocks of the continental shelf of Vietnam. In addition, the Group started the drilling of the first prospecting well in Venezuela, received the right to carry exploration work in the El Assel section in Algeria as well as subsoil use licenses for oil and gas promising areas in Kyrgyzstan and Tajikistan.

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

The declining demand for gas on domestic and foreign markets due to the global financial crisis requires that in the medium-term the Group should decrease the production of natural gas at its operating capacities. However, the Group's long-term forecasts of demand in its major markets are based on a conservative approach, therefore, the long-term strategic goals and projects of the Group are sustainable despite any short- and medium-term changes in the economic environment. By 2020 the Group plans to provide gas production of 650-670 bcm. In order to reach these levels, the Group intends to develop new strategic fields in the Yamal Peninsula in western Siberia, the Russian arctic sea shelf, in eastern Siberia and the Far East.

The Group intends to increase the oil production to 90-100 million tons per year by 2020. The Group plans to achieve this target gradually by putting on stream Gazprom Neft Group's fields (and fields owned by OAO NGK Slavneft and OAO Tomskneft VNK, in each of which Gazprom Neft Group owns a 50% interest), and by expanding the development of other liquid hydrocarbon reserves of its natural gas production subsidiaries.

It is planned to expand activities of Gazprom Group in the development of hydrocarbon reserves abroad.

#### **Transportation of Gas**

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

	<b>As of 31 December,</b>	
	<b>2008</b>	<b>2007</b>
Assets, million RR	1,874,130	1,685,608
Share in total assets of the Group, %	26.1	24.8
	<b>Year ended 31 December,</b>	
	<b>2008</b>	<b>2007</b>
Capital additions, million RR	248,114	193,664
Share in total capital additions of the Group (%)	34.7	34.1

#### Gas transportation system

In Russia OAO Gazprom owns the largest gas pipeline system in the world and can provide an uninterrupted long distances gas supply to customers in the Russian Federation and abroad.

As of 31 December, 2008 the total length of the system was approximately 159.5 thousand km and included 219 compressor stations on the pipelines with a total capacity of about 42.0 thousand MW

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

Age	As of 31 December, 2008	
	Km	%
Up to 10 years	17,296.2	10.8
11 - 20 years	35,585.3	22.3
21 - 33 years	67,845.0	42.6
Over 33 years	38,732.5	24.3
<b>Total</b>	<b>159,459.0</b>	<b>100.0</b>

The Group is continually working to improve the reliability and efficiency of the system. There have been no major interruptions of gas supplies caused by any failure or fault of the system over the last 10 years. As a result of the regular pipeline repairs, advanced maintenance and diagnostic technology, the incidence of technical faults that involve interruptions or restrictions of gas supply significantly dropped from 32 in 2002 to 20 in 2008.

In 2008 the gas transportation system transported 714.3 bcm of natural gas. Independent gas suppliers outside Gazprom Group transported approximately 111.2 bcm, and RosUkrEnergo, an associated company supplying gas primarily from Central Asia to Ukraine and European countries, accounted for about 54% of this volume. The transportation tariffs for gas produced beyond Russia are not regulated by the Russian Government.

In 2008 the average length of transportation was 2,901.3 km for domestic supplies and 3,322.4 km for export supplies.

Volumes of natural gas used for own technical needs of the gas transportation system were 49.6 bcm and 49.5 bcm of natural gas for the years ended 31 December, 2008 and 2007, respectively. The Group assesses the level of gas losses as low and the level of gas consumption as fuel as satisfactory.

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

#### Main areas of capital expenditures

In 2008 the main capital expenditures in the Group's gas transportation segment are allocated to the construction of the Bovanenkovo-Ukhta, SRTO-Torzhok and Gryazovets-Vyborg trunk pipelines (Gryazovets-Vyborg is supposed to connect to Nord Stream pipeline) as well as expansion of the Urengosky transportation unit. As a result of gas transportation projects implementation in 2008 1,381.0 km of gas pipelines and seven compressor stations with a total capacity of 528 MW were put into operation.

#### Reporting year events

In January 2008, the Group and ENI S.p.A. established a special purpose company South Stream A.G. on an equal basis, to understand the feasibility of the South Stream project. In 2008 intergovernmental agreements were signed with the countries of Southern and Central Europe, including Bulgaria, Serbia, Hungary and Greece for the construction of the on-shore part of the pipeline. OAO Gazprom is currently negotiating the terms of similar intergovernmental agreements with Slovenia and Austria. The off-shore portion of the pipeline is expected to be approximately 900 km long and to pass under the Black Sea from the Russian coast to the European coast.

At the end of 2008 the Group executed a number of transactions as a result of which the Group obtained the controlling interest in OAO Daltransgaz who owns the gas pipeline Komsomolsk-na-Amure – Khabarovsk. The pipeline is used to supply gas from Sakhalin I project to the customers in Khabarovsk. These gas transportation assets will be included in the first stage of the

gas transportation system Sakhalin – Khabarovsk – Vladivostok the construction of which the Group commenced in 2008.

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

To ensure reliable gas supply to the domestic market and to fulfil its contracted export obligations the Group is involved in the construction of new transportation capacities. In the conditions of the deepening global crisis the priority is given to the construction of gas pipelines: Pochinki – Gryazovets, Gryazovets – Vyborg, Nord Stream and expansion of the gas transportation system in the Urengoy region.

Future large projects expected to be put into operation include the system of trunk pipelines Bovanenkovo – Ukhta and Ukhta – Torzhok to transport gas from gas fields in the Yamal Peninsula; the gas pipeline Murmansk – Volkhov to transport gas from the Shtokmanovsky field to the north-west region of Russia; and the gas pipeline South Stream.

#### **Gas underground storage**

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

The above operations are included in other operating activities in the consolidated financial statements for the year ended 31 December, 2008.

#### Gas underground storage in Russia and abroad

As of 31 December, 2008 the Group owns and operates 25 Underground Gas Storage facilities (UGS) in the territory of Russia with total volume of commercial gas amounting to 65.2 bcm which represent the main tool to smooth seasonal inequality of gas consumption. During the period of peak load, this network of underground storages ensures about 20% of gas supply to Russian consumers and on export, and for the days of quick freeze this figure reaches 30%.

ZAO ArmRosgazprom, which is a part of the Group, operates Abovyanskaya UGS in the Republic of Armenia, active capacity of which amounts to 98 million cm as of 31 December, 2008.

For the purpose to increase reliability of export sales, the Group uses gas underground storages on a lease basis in the territory of Latvia (Inchukalnskoye UGS), Germany (UGS Reden), UK (UGS Humbly Grove), some of which are operated by the Group's associates; it also participates in the construction of new gas underground storage facilities in Europe (UGS Haidach in Austria).

By the beginning of the heating season of 2008-2009 the Group established gas reserves in gas underground storages amounted to 64.0 bcm. Gas pumped into the underground gas storages outside Russia amounted to 4.4 bcm.

#### Reporting year events

In April 2008 an agreement was signed with a German company Verbundnetzgas AG on construction of a new underground gas storage in Germany (Bernburg). It is planned to commission the storage in 2009. Upon completion of construction of these facilities in 2022, the active capacity of UGS is projected to reach 510 million cm of gas.



## Gas distribution

The following table shows assets and volumes of capital investments in the Gas Distribution segment:

	As of 31 December,	
	2008	2007
Assets, million RR	691,143	482,247
Share in total assets of the Group, %	9.6	7.1

  

	Year ended 31 December,	
	2008	2007
Capital additions, million RR	34,819	31,324
Share in total capital additions of the Group, %	4.9	5.5

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

(bcm)	Year ended 31 December,		Change, %
	2008	2007	
Russia	292.2	307.0	-4.8
FSU countries <sup>(1)</sup>	96.5	96.5	-
Europe and other countries <sup>(1)</sup>	184.4	168.5	9.4
<b>Total</b>	<b>573.1</b>	<b>572.0</b>	<b>0.2</b>

Note:

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

As a result of a dramatic reduction of gas demand in foreign and domestic markets in the fourth quarter of 2008, the Group's gas sales totaled 156.5 bcm declining by 8.7% as compared to the same period in 2007. Despite the negative dynamics of the year end, natural gas sales to Europe and other countries reached its record level of 184.4 bcm in 2008 having increased by 9.4% compared to 2007.

### The price of natural gas international sales

The Group's results of operations are heavily reliant on natural gas prices on sales to Europe and other countries. U.S.\$ prices for natural gas increased in 2008 compared to 2007. The prices of our natural gas deliveries to Europe and other countries are basically linked to the global oil products prices. However, due to the six to nine months time lag embedded in the price formulas, our natural gas export prices exercise less volatility compared to the global crude oil prices.

Average natural gas export prices to FSU countries are below the level of those for Europe and other countries. Gazprom is continuing to gradually adjust existing agreements with FSU countries for a complete transfer to contractual terms and pricing mechanisms similar to those applied in European countries.

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

	<b>Year ended 31 December,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(Including excise tax, net of VAT)</b>	
Natural gas sales to Europe and other countries		
U.S.\$ per mcm <sup>(1)</sup>	407.3	269.4
U.S.\$ per mcf <sup>(1)</sup>	11.5	7.6
Average price in nominal RR per mcm	10,123.6	6,891.4
Natural gas sales to FSU countries		
U.S.\$ per mcm <sup>(1)</sup>	159.2	110.9
U.S.\$ per mcf <sup>(1)</sup>	4.5	3.1
RR per mcm	3,956.9	2,835.3

Note:

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

### Domestic natural gas prices

In 2008, the average price of gas sold by the Group in the domestic market remained significantly lower than export prices (without regard to export duties and transportation costs), which is related to the regulation of gas wholesale prices in Russia by the Russian Government. From 1 January, 2008 the regulated wholesale gas prices have been increased by 25%.

At the end of 2008 due to global economic crisis the Russian Government made a decision to adjust the natural gas prices on a quarterly basis in 2009: increase by 5% from 1 January, 7% - from 1 April, 7% - from 1 July, and 6.2% - from 1 October, which is expected to result in 15.9% annual average increase in gas price. The increase rates for 2010 are expected to be 13.0% beginning 1 January, 2010 and an additional 13.0% beginning July 1, 2010.

The following table shows the average domestic natural gas prices:

	<b>Year ended</b>	
	<b>31 December,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(including excise, net of VAT)</b>	
RR per mcm	1,640.6	1,301.1
RR per mcf	46.5	36.8
U.S.\$ per mcm <sup>(1)</sup>	66.0	50.9
U.S.\$ per mcf <sup>(1)</sup>	1.9	1.4

Note:

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

### Main areas of capital expenditures

Approximately 70% of the segment's capital additions include the Group's investments in gasification of the Russian Federation regions. In 2008 the gasification program was implemented in 64 constituents of the Russian Federation. The construction of 153 gasification facilities in 47 constituents of the Russian Federation with total length of 2,700 km was completed, Gazprom investments amounted to RR 24.18 billion.

### Reporting year and subsequent events

In January 2008 the Group signed an agreement with Austrian company OMF AG under which the Gazprom Group will obtain 50% interest in Central Europe Gas Hub (Baumgarten), one of the largest gas distribution centers in Europe.

As agreed by Prime Ministers of Russia and Ukraine, on 19 January, 2009 OAO Gazprom and NAK Naftogaz Ukraine signed separate long-term (11 years) contracts on supply of Russian gas to the Ukraine and transit of gas via Ukrainian territory to Europe. Under the supply contract, in 2009 the gas price for Ukrainian consumers is calculated under the generally accepted European pricing formula with reduction factor of 0.8, and starting from 1 January, 2010, Gazprom will be selling gas to the Ukraine at the European market price without any discounts. The transit contract provides for keeping in 2009 the preferential transit rate amounting to U.S.\$ 1.7 for transportation of 1,000 cm per 100 km and transiting to the market rate calculated under the generally accepted European formula transit rate starting from 2010.

In February 2009 the first Russian plant producing liquefied petroleum gas was launched within the framework of Sakhalin-II Project. Sakhalin-II Project is being implemented under the Product Sharing Agreement in which the Group owns 50% plus one share. The liquefied petroleum gas plant consists of two technological lines with capacity of 4.8 mln tones of liquefied petroleum gas each. It is planned that the plant will reach its designed capacity (9.6 mln tones per year) in 2010. Supply of liquefied petroleum gas to customers started at the end of March 2009.

#### Development plans for Gas Distribution segment

The Group's strategy in the Russian domestic market consists of ensuring a continuous gas supply to the domestic customers while improving the profitability of sales. Starting from 2006 the Russian Government is taking measures aimed at developing Russian gas market in accordance with market principles. In particular, the dynamics of changes in the regulated wholesale prices for gas is determined and their bringing to the level ensuring the equal profitability of export gas supplies and supplies at domestic market by applying the market price formula is specified. The sales of gas at contractual prices fixed for specific categories of consumers within the regulated range in accordance with the Decree of the Russian Government dated 28 May, 2007 No 333 "On Improving the State Regulation of Gas Prices" will enable a large group of consumers to gradually adjust to new pricing conditions by 2011.

One of the milestones of domestic gas market development is to achieve a transition from the regulation of wholesale gas prices to the regulation of gas transportation tariffs through trunk pipelines for all gas suppliers.

Further work of the Group related to gasification of the Russian regions will be aimed at reaching the maximum of economically justified level of gasification in Russia.

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

The key objectives of Gazprom's marketing strategy in the FSU countries are to ensure that Russian gas will continue to maintain its leading position in the energy sector of the former Soviet republics, to amend the existing agreements with CIS countries for the purposes of transition to the contractual and pricing terms that are similar to those the Group currently has with European customers and to expand an access to the end-users.

To ensure the flexibility in determining the development stages of fields in the new gas producing regions in Russia, the Group develops the cooperation with Central Asian countries in developing gas reserves, upgrading and modernizing gas transportation systems Gas resources of

Central Asia enable to enter new sales markets with ensuring the reliability of supplies to the traditional consumers.

As part of the strategy to diversify the sales geography the Group considers the countries of Asia-Pacific Region and North America, to whose markets the access is planned including by stage-by-stage development of production and marine transportation of the liquefied natural gas (LNG) as new key markets.

## Refining

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

	As of 31 December,	
	2008	2007
Assets, RR million	268,514	333,051
Share in the Group's total assets, %	3.7	4.9
	For the year ended 31 December,	
	2008	2007
Capital additions, RR million	50,554	39,195
Share in the Group's total capital additions, %	7.1	6.9

## Processing hydrocarbons and production of refined products

In 2008 natural gas and gas condensate was processed by gas processing and gas production subsidiaries of OAO Gazprom (OOO Gazprom pererabotka, OOO Gazprom dobycha Astrakhan, OOO Gazprom dobycha Orenburg, Vostokgazprom Group), crude oil was refined by Gazprom Neft Group at Omsk Refinery, Moscow Refinery and OAO NGK Slavneft entities.

In addition, in the first half of 2008 the Group included Sibur Group of companies processing associated oil gas and producing petrochemical and gas chemical products.

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

	For the year ended 31 December,		Change, %
	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>	
Natural and associated gas, bcm	38.4	44.0	-12.7
including Sibur Group <sup>(2)</sup>	5.1	10.7	-52.3
Crude oil and unstable gas condensate	40.1	38.2	5.0
including Gazprom Neft Group	28.4	26.2	8.4

Notes:

(1) The data in tables do not include processing feedstock

(2) Excluding production volumes of TNK-BP after creation of a joint venture, OOO Yugragazpererabotka based on Belozerny and Nizhnevartovsk GPK. Due to deconsolidation starting from 24 June, 2008 the data of Sibur Group are not included within the data of Gazprom Group starting the second half of 2008

As of 31 December, 2008 the total processing and refining capacity of the Group was 52.5 bcm of natural gas and 60.2 million tons of unstable gas condensate and crude oil.

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

	For the year ended 31 December,		Change, %
	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>	
Dry gas, bcm	30.9	35.8	-13.7
including Sibur Group <sup>(2)</sup>	4.4	9.3	-52.7
Liquefied oil gas, thousand tons	4,104.1	5,537.6	-25.9
including Sibur Group <sup>(2)</sup>	1,503.1	2,861.7	-47.5
including Gazprom Neft Group	563.8	566.1	-0.4
Broad fractions of light hydrocarbons, thousand tons	1,488.5	2,648.9	-43.8
including Sibur Group <sup>(2)</sup>	933.9	2,061.4	-54.7
Gasoline, thousand tons	7,606.2	7,518.7	1.2
including Gazprom Neft Group	5,473.9	5,376.9	1.8
Aviation fuel, thousand tons	1,967.3	1,944.2	1.2
including Gazprom Neft Group	1,805.9	1,810.3	-0.2
Diesel fuel, thousand tons	10,406.6	9,510.7	9.4
including Gazprom Neft Group	9,012.5	8,081.4	11.5
Stable gas condensate and crude oil, thousand tons	3,413.8	3,653.0	-6.5
Furnace fuel oil, thousand tons	6,138.5	5,653.9	8.6
including Gazprom Neft Group	5,748.8	5,259.7	9.3
Lubricants, thousand tons	328.3	346.4	-5.3
Helium, mcm	5,037.9	4,874.0	3.4
Sulfur, thousand tons	5,385.9	5,432.3	-0.9
including Gazprom Neft Group	66.1	62.2	6.3
Ethane, thousand tons	327.2	238.4	37.2

Notes:

(1) The data in tables do not include processing feedstock.

(2) Excluding production volumes of TNK-BP after creation of a joint venture, OOO Yugragazpererabotka based on Belozerny and Nizhnevartovsk GPK. Due to deconsolidation starting from 24 June, 2008 the data of Sibur Group are not included within the data of Gazprom Group starting the second half of 2008.

Increase in the production of major oil products (furnace fuel oil, diesel fuel) is mainly explained by the additional volumes of crude oil refined by Gazprom Neft Group, which were included in the company's balance sheet after acquisition of OAO Tomskneft VNK; reduction of natural gas and associated gas processing, decrease in the production of dry gas, liquefied hydrocarbon gas, broad fraction of light hydrocarbons - jointly with deconsolidation of Sibur Group starting from the second half of 2008.

### Sales of refined products

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

	For the year ended 31 December,		Change, %
	2008 <sup>(1, 2)</sup>	2007 <sup>(1, 2)</sup>	
Russia	24.5	23.2	5.6
including Sibur Group <sup>(3)</sup>	1.5	3.4	-55.9
FSU countries	2.4	2.9	-17.2
including Sibur Group <sup>(3)</sup>	0.2	0.4	-50.0
Europe and other countries	16.7	19.2	-13.0
including Sibur Group <sup>(3)</sup>	1.4	2.5	-44.0
<b>Total</b>	<b>43.6</b>	<b>45.3</b>	<b>-3.8</b>

Notes:

(1) The volumes of refined and petrochemical products sold to the consumers of the sales market under consideration less intercompany sales are presented. All volumes of refined products sold by Gazprom Group, of own production and purchased from third parties, are included.

(2) The volumes do not include helium and tires.

(3) Due to deconsolidation starting from 24 June, 2008 the data of Sibur Group are not recognized within the data of Gazprom Group starting the second half of 2008

In 2008 sales of helium by the Group reached 5.0 mcm, which exceeds the level of 2007 by 3.7%. Increase in the sales of refined and petrochemical products at domestic market is explained by advantageous market conditions.

Total number of gas stations operated by sales companies of Gazprom Group increased up to 865 as of 31 December, 2008 (including gas stations located abroad - 102) with the increase in daily average sales per gas station by 13%.

#### Main areas of capital expenditures

The capital expenditures in refining in 2008 were mainly used for implementation of construction of Novourengoijsky gas chemical complex and reconstruction and expansion of the stable condensate processing capacities at Astrakhan gas processing plant. In addition, the Group performed reconstruction and technical re-equipping of hydrofining facilities at Omsky Refinery to improve the quality of the produced engine fuels.

#### Reporting year events and post balance sheet events

In December 2008 the Group purchased 50% plus one ordinary share of petrochemical company OAO Salavatnefteorgsintez for RR 21.0 billion. The company's oil and gas condensate refining and processing capacities are seven million tons, the list of products include butanol, gasoline, ethylene, propylene, polyethylene and others. Acquisition of OAO Salavatnefteorgsintez provides the Group with possibility to ensure more advanced processing of hydrocarbons.

In February 2009 the Group acquired 51% interest in Serbian oil company Naftna Industrija Srbije including two refineries in Panchevo and Novy-Sad with total capacities of 7.3 million tons of oil per year from the Government of Serbia. The consideration amounted to 38 billion of serbian dinar (400 million euro).

#### Development plans for the Refining segment

The main objective of the Group's development in gas processing and gas chemistry is an increase in the rate of extraction of valuable components of natural and associated oil gas and their effective use for further refining to marketable products with high added value.

The strategy provides for the minimization of the cost of production including the optimization of logistic expenses and use of high technology. Further improving financial and management control over implementation of investment projects will be one of the instruments bringing the gas chemical business to a new level of efficiency.

Development of gas processing and gas chemistry can be ensured by current availability and increase of the production of natural gas with high content of ethane, propane and butane in the long term. In particular, according to the developed General Scheme of Gas Industry Development up to 2030 the Group forecasts the growth of natural gas with high content of these components from 90 to 160 bcm by 2020. Within the framework of the strategy the creation of gas processing and gas chemical productions when developing the resources of eastern Siberia and the Far East is also considered.

According to the oil business development strategy up to 2020 it is planned to increase the volume of oil refining up to 70-80 million ton per year, the volume of oil products sales via own retail network up to 12 million tons per year. The Group plans to expand the retail network up to 5.0-5.5 thousand gasoline filling stations. In addition, the spinning-off product areas such as bithum and petrochemistry, kerosene oil, coaling, lubricants, oil and petrochemistry in independent business is planned.

## Electric Power

Starting from 2008 financial statements, electric power is one of the key types of Gazprom Group activities including the operations of the largest electricity companies of Russia (OAO Mosenergo, OAO WGC-2, OAO WGC-6) and electricity trading operations of Gazprom Germania Group.

The following table shows assets and capital investments related to production of electricity and heat.

	As of 31 December,	
	2008	2007
Assets, RR million	356,679	209,852
Share in the Group's total assets, %	5.0	3.1
	<b>For the year ended 31 December,</b>	
	<b>2008</b>	<b>2007</b>
Capital additions, RR million	37,956	19,990
Share in the Group's total capital additions, %	5.3	3.5

In 2007- 2008, as a result of the reform of Russian electric power industry and participation in the additional issues of shares of generating companies, Gazprom Group mostly implemented its strategic task of entering into electric power business. Since the 2<sup>nd</sup> half of 2007 OAO Mosenergo is included in Gazprom Group and since the 2<sup>nd</sup> half of 2008 - OAO WGC-2 and OAO WGC-6 are included in Gazprom Group. In addition, as of 31 December, 2008 the Group owns 28.7% of OAO TGC-1 shares.

OAO WGC-2 and OAO WGC-6 are wholesale generating companies which include large federal power plants located in various Russian regions. OAO TGC-1 is the third largest Russian territorial generating company in terms of installed capacity (6,278 MW as of 31 December, 2008) and is operating in the North Western Region with an ever increasing gas consumption.

Information on main generating assets of the Group is presented below:

Generating companies	Generating capacities as of 31 December, 2008, MW	Energy generation for the year ended 31 December, 2008, bln kW/h	Heating capacity as of 31 December, 2008, Gcal/h	Heat production for the year ended 31 December, 2008, Mln Gcal
OAO Mosenergo	12,000	64.2	34,167	62.4
OAO WGC-2 <sup>(1)</sup>	8,695	24.9	1,700	1.2
OAO WGC-6 <sup>(1)</sup>	9,052	19.5	2,700	2.2
ZAO Kaunasskaya TEC (Lithuania)	170	0.7	894	1.3
<b>Total</b>	<b>29,917</b>	<b>109.3</b>	<b>39,461</b>	<b>67.1</b>

Note:

(1) Data for OAO WGC-2 and OAO WGC-6 are presented starting from the second half of 2008.

The produced electricity is sold by the Russian generating companies of the Group at wholesale market.

Gazprom Germania Group carries out transactions with electric power at trading sites outside Russia. The aggregate sales of electric power increased 2.9 times (by 15 bln kW/h) in 2008 compared to 2007 and amounted to 23 bln kW/h.

### Main areas of capital expenditures

In 2008, OAO Mosenergo completed the third stage of its investment program by commissioning three combined cycle power plants with the capacity of 420–450 MW. Total investment for 2008 amounted to over RR 23 billion.

### Development plans for Electric Power Segment

The Group treats electric power industry as a new, strategically important area of operations and believes that expansion of its presence in electric power industry will increase business stability in the long term and bring additional income.

In 2007-2008 the Group acquired assets in electric power generation in the course of reformation of the Russian electric power industry and plans to participate in investment projects on construction of power plants in the Russian Federation. The aggregate planned commissioning of capacity in accordance with the joint investment program of three main Russian generating companies controlled by the Group is estimated in the amount of 7 GW for the period up to 2015. Additionally, the investment program of OAO TGC-1, the control of which the Group plans to establish, involves commissioning of capacity exceeding 2 GW.

The Group also considers the possibility of investing in construction and acquisition of European electric power assets with the purpose to enhance efficiency and strengthen its positions in the European energy markets and expands its cooperation with utility companies with client base and a set of technologies which will help to broaden the Group's presence in the international electric power market.



## ENVIRONMENT PROTECTION

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

In 2008, as a result of governmental inspections, no significant violations of Russian environmental legislation by Gazprom Group entities were identified. Claims and penalties related to violation by Gazprom of environmental legislation amounted to RR 4.3 mln.

Claims presented in 2007 by the Ministry of Natural Resources and Environment of the Russian Federation related to implementation of Sakhalin-2 Project have been removed, the Plan of Environmental Actions is implemented. No significant penalties were applied by governmental environmental authorities in respect of the project in 2008.

OAO Gazprom's new Environmental Policy and the List of Priority Actions Aimed to Protect Environment for the Period up to 2010 were approved. Implementation of the Environmental Policy should result in cost savings and enhanced efficiency of resources management, minimisation of share of adverse effect on environment, optimisation of the corporate system of environmental management, ensuring balanced innovative development of OAO Gazprom and combining production expansion with modern and efficient approaches to protection of environment.

The main indicators of Gazprom Group impact on environment for the year ended 31 December, 2008 are presented below:

<b>Main indicators</b>	<b>Year ended 31 December, 2008</b>
Pollutant emissions into the air, thousand tones	3,340.7
Carbonic oxide, thousand tones	785.5
Nitrogen oxide, thousand tones	339.4
Methane, thousand tones	1,712.4
Discharge of waste water, mcm	4,115.9
Generation of waste, thousand tones	4,084.5
Recultivated lands, thousand ha	8.29

In 2008 Gazprom Group entities continued their environmental-focused development of production activities with reconstruction of old and commissioning of new capacities, based on application of advanced technological and technical solutions, including those developed by Gazprom's research centres. In particular, solutions aimed to reduce the noise level from compressor stations, as well as to reduce pollutant emissions in the air were implemented, inter alia, due to reduction of gas consumption for internal needs. Additionally, new sewage treatment facilities were constructed and the existing ones were upgraded and reconstructed.

Gazprom Group's environmental costs are disclosed below:

(RR million)	<b>Year ended 31 December, 2008</b>
Current costs	17,162.2
Costs of capital repairs of fixed assets used for environmental protection	1,428.8
Pollution charges	2,678.8
Capital environmental costs	3,501.0

## **INNOVATIVE ACTIVITY**

Gazprom develops mechanisms for organisation of innovative activity with the aim of ensure an efficient implementation of research and development results based on interaction and balance of interests of all stakeholders of innovative process (OAO Gazprom, research organisations, manufacturers of equipment, financial institutions.) One of the main components of such mechanism is the infrastructure of venture finance of innovative projects, the base element of which is the venture fund.

OAO Gazprom Board of Directors agreed on OAO Gazprom's participation in a newly established OOO Gazprom Venture, the participants of this entity being OAO Gazprom (51%) and ZAO Gazprombank – Asset Management (49%) authorized by Gazprombank (OAO).

The Program of Development of Scientific and Technical Facilities of OAO Gazprom up to year 2013 determining the main guidelines and actions on improvement of research and development management was approved. Implementation of this Program will facilitate higher efficiency of Gazprom's investments in research and development.

Gazprom Group finances research and development projects aimed to resolve the following tasks:

- Economically efficient involvement in field development in the new gas production regions (Obstkaya and Tazovskaya Guba, Yamal Peninsula, Barents and Kara Sea shelves, eastern Siberia, the Far East), with their severe climate and geological conditions;
- Ensuring efficient usage of existing producing fields;
- Creation of technologies for an efficient development of small gas fields and non-traditional resources, in particular, methane of coal deposits;
- Development of equipment and new generation diagnostic systems to maintain reliability and efficiency of the Unified Gas Supply System facilities.
- Development and marketing of new products based on advanced processing of hydrocarbons, expansion of production and transportation of liquid and compressed natural gas;
- Diversification of product markets, including entering the markets of Asia Pacific Region;
- Development of energy saving technologies and equipment.

As of 31 December, 2008 Gazprom Group entities held 1,321 patents. In 2008 142 patents were issued to Gazprom Group entities, which is in line with the previous years figure.

## EMPLOYEES

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

As of 31 December, 2008 the number of employees in Gazprom Group's subsidiaries was 376.3 thousand people, including 221.3 thousand employees of Gazprom Group's entities engaged in production, transportation, underground storage and processing of gas.

The structure of Gazprom Group's employees is provided in the following table:

	<b>As of 31 December, 2008</b>
	<b>Share, %</b>
Managers	11.6
Specialists	22.6
Other employees	4.0
Workers	61.8

The table below shows the level of education of Gazprom Group staff:

	<b>As of 31 December, 2008</b>
	<b>Share, %</b>
Post-graduate	0.5
Higher professional	34.2
Secondary-level professional	23.7
Secondary-level	41.6

Professional training of workers is carried out in training divisions of subsidiaries, training of graduates – in corporate and governmental educational institutions. Totally, 155 thousand employees were covered by professional development in 2008.

In 2008 social and labour relations between employees and employers in the Group entities were regulated by labour legislation, Industry Agreement for Entities of Oil and Gas Sectors and Construction of Oil and Gas Facilities of the Russian Federation for 2008-2010, Industry Tariff Agreement in the Russian Utilities Sector for 2007–2008, General Collective Agreement of OAO Gazprom, its subsidiaries and entities for 2007–2009 and by subsidiaries' and entities' collective agreements.

The General Collective Agreement of OAO Gazprom, its subsidiaries and entities for 2007–2009 affects interests of 263 thousand employees.

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

## ANALYSIS OF FINANCIAL RESULTS OF OPERATIONS

### Results of operations

(RR million)

	Year ended 31 December,	
	2008	2007
Sales (net of excise tax, VAT and customs duties)	3,518,960	2,423,245
Operating expenses	(2,159,690)	(1,713,759)
Impairments provision and other provisions	<u>(98,964)</u>	<u>(7,708)</u>
<b>Operating profit</b>	<b>1,260,306</b>	<b>701,778</b>
Gain from sale of interest in subsidiary	-	50,853
(Loss) gain from change in fair value of call option	(50,738)	50,738
Deconsolidation of NPF Gazfund	-	44,692
Finance income	165,603	159,380
Finance expenses	(341,179)	(132,573)
Share of net (loss) income of associated undertakings and jointly controlled entities	(16,686)	24,234
Gains on disposal of available-for-sale financial assets	<u>14,326</u>	<u>25,102</u>
<b>Profit before profit tax</b>	<b>1,031,632</b>	<b>924,204</b>
Current profit tax expense	(307,094)	(218,266)
Deferred profit tax benefit (expense)	<u>46,842</u>	<u>(10,953)</u>
Total profit tax expense	(260,252)	(229,219)
<b>Profit for the period</b>	<b>771,380</b>	<b>694,985</b>
<b>Attributable to:</b>		
Equity holders of OAO Gazprom	742,928	658,038
Minority interest	<u>28,452</u>	<u>36,947</u>
	<b>771,380</b>	<b>694,985</b>

### Sales

The following table sets out the volumes and realized prices:

	Year ended 31 December,	
	2008	2007
(RR million unless indicated otherwise)		
<b>Sales of gas</b>		
<i>Europe and other countries</i>		
Gross sales <sup>(1)</sup>	1,866,933	1,161,549
Excise tax	(81)	(96)
Customs duties	(436,352)	(288,043)
Net sales	1,430,500	873,410
Volumes in bcm	184.4	168.5
Gross average price, U.S.\$ per mcm (including excise tax and customs duties) <sup>(2)</sup>	407.3	269.4
Gross average price, RR per mcm <sup>(2)</sup> (including excise tax and customs duties)	10,123.6	6,891.4
<i>FSU (Former Soviet Union)</i>		
Gross sales (net of value added tax (VAT))	381,902	273,550
Excise	-	-
Customs duties	(25,388)	(18,709)
Net sales	356,514	254,841
Volumes in bcm	96.5	96.5
Gross average price, U.S.\$ per mcm (including excise tax and customs duties, net of VAT) <sup>(2)</sup>	159.2	110.9
Gross average price, RR per mcm (including excise tax and customs duties, net of VAT)	3,956.9	2,835.3

(RR million unless indicated otherwise)	Year ended 31 December,	
	2008	2007
<i>Russia</i>		
Gross sales (net of VAT)	479,387	399,452
Excise	-	-
Net sales	479,387	399,452
Volumes in bcm	292.2	307.0
Gross average price, RR per mcm (including excise tax, net of VAT)	1,640.6	1,301.1
<i>Total sales of gas</i>		
Gross sales (net of VAT)	2,728,222	1,834,551
Excise tax	(81)	(96)
Customs duties	(461,740)	(306,752)
Net sales	2,266,401	1,527,703
Volumes in bcm	573.1	572.0
Net sales of refined products (net of excise tax, VAT and customs duties)	652,956	525,216
Net sales of crude oil and gas condensate (net of excise tax, VAT and customs duties)	214,955	167,758
Sales of electricity and heat (net of VAT)	197,232	49,558
Gas transportation sales (net of VAT)	70,685	41,740
Other revenues (net of VAT)	<u>116,731</u>	<u>111,270</u>
<b>Total sales (net of excise tax, VAT and customs duties)</b>	<b>3,518,960</b>	<b>2,423,245</b>

Notes:

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

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

Total sales (net of excise tax, VAT and customs duties) increased by RR 1,095,715 million, or 45%, to RR 3,518,960 million in the year ended 31 December, 2008 compared to the year ended 31 December, 2007.

Net sales of gas accounted for 64% and 63% of total net sales in the years ended 31 December, 2008 and 2007, respectively.

Net sales of gas increased from RR 1,527,703 million in the year ended 31 December, 2007 to RR 2,266,401 million in the year ended 31 December, 2008, or by 48%.

Net sales of gas to Europe and other countries increased in the year ended 31 December, 2008 compared to the year ended 31 December, 2007, by RR 557,090 million, or 64%, to RR 1,430,500 million. The overall increase in sales to Europe and other countries was driven both by volume and price. Gross average RR price (including excise tax and customs duties) grew by 47% for the year ended 31 December, 2008, compared to the year ended 31 December, 2007. At the same time volumes for the year ended 31 December, 2008 increased by 9% compared to the year ended 31 December, 2007. The increase in export gas prices reflects the increase in world prices for hydrocarbons that are used as price-determinants in most gas supply contracts. In the majority of contracts hydrocarbons prices of prior periods are used as price determinants.

Net sales of gas to FSU countries increased in the year ended 31 December, 2008 compared to the year ended 31 December, 2007, by RR 101,673 million, or 40%, to RR 356,514 million. This increase was mainly due to a 40% increase in prices in RR terms (net of excise tax, customs duties and VAT).

Net sales of gas in the domestic market increased by RR 79,935 million, or 20%, in the year ended 31 December, 2008 compared to the year ended 31 December, 2007. This increase was mainly due to the increase in domestic gas tariffs by 26%, which was partly offset by 5% decrease in sales volumes. Domestic gas tariffs in Russia are set by the Federal Tariffs Service (FTS).

Sales of refined products (net of excise tax, VAT and customs duties) increased by RR 127,740 million, or 24%, to RR 652,956 million in the year ended 31 December, 2008 compared to RR 525,216 million in the year ended 31 December, 2007. The increase mainly related to increase in world prices for refined products in the year ended 31 December, 2008 compared to the year ended 31 December, 2007. In 2008 and 2007 Gazprom Neft Group's sales comprised 68% and 60% of the total amount of refined products sales of Gazprom Group, respectively.

Sales of crude oil and gas condensate (net of excise tax, customs duties and VAT) increased by RR 47,197 million, or 28%, to RR 214,955 million in the year ended 31 December, 2008 compared to RR 167,758 million in the year ended 31 December, 2007. The increase was mainly caused by oil price increase. Sales of crude oil included in net sales of crude oil and gas condensate (net of customs duties and VAT), amounted to RR 191,378 million and RR 147,552 million in the year ended 31 December, 2008 and 2007, respectively.

Sales of electricity and heat (net of VAT) increased by RR 147,674 million, or 298%. This increase was mainly due to sales of OAO Mosenergo, which is consolidated since the 2nd half of 2007, and OAO WGC-2 and OAO WGC-6, which are consolidated since the 2nd half of 2008, and also due to Gazprom Germania Group's activities.

Gas transportation sales increased by RR 28,945 million, or 69%, to RR 70,685 million in the year ended 31 December, 2008 from RR 41,740 million in the year ended 31 December, 2007. This increase was due to an increase in tariffs for gas transportation set by FTS, and also due to increase of transportation services volumes for RosUkrEnergo AG rendered by gas transport organizations of Gazprom Group.

Other revenues increased by RR 5,461 million, or 5%, to RR 116,731 million in the year ended 31 December, 2008 compared to RR 111,270 million in the year ended 31 December, 2007. Other revenues include sales of other services and goods.

### Operating expenses

Operating expenses increased by 26% in the year ended 31 December, 2008 to RR 2,159,690 million from RR 1,713,759 million in the year ended 31 December, 2007. Operating expenses as a percentage of sales decreased from 71% in the year ended 31 December, 2007 to 61% in the year ended 31 December, 2008. The table below presents a breakdown of operating expenses in each period:

(RR million)	Year ended 31 December,	
	2008	2007
Purchased oil and gas	696,274	382,054
Taxes other than on income	258,971	229,771
Staff costs	240,607	248,894
Depreciation	195,016	183,577
Transit of gas, oil and refined products	185,269	152,093
Repairs and maintenance	152,234	118,058
Cost of goods for resale, including refined products	132,801	56,643
Materials	90,722	94,520
Electricity and heating expenses	48,691	44,901
Research and development expenses	19,952	15,486
Social expenses	18,668	16,343
Rental expenses	15,178	13,568
Insurance expenses	14,637	12,950
Refine services	10,055	10,090
Transportation expenses	7,485	6,675
Other operating expenses	73,130	128,136
<b>Total operating expenses</b>	<b>2,159,690</b>	<b>1,713,759</b>

### Purchased oil and gas

Cost of purchased oil and gas increased by 82% to RR 696,274 million in the year ended 31 December, 2008 from RR 382,054 million in the year ended 31 December, 2007. The increase primarily relates to the increase in the amount of gas sales and purchase transactions in the European market and, therefore, the volume of purchased gas. These transactions are executed at market prices and are related mainly to Gazprom Germania Group. The cost of purchased oil included in the cost of purchased oil and gas increased by RR 75,005, or 91%, and amounted to RR 157,594 million in the year ended 31 December, 2008 from RR 82,589 million in the year ended 31 December, 2007.

### Taxes other than on income

Taxes other than on income consist of:

(RR million)	Year ended 31 December,	
	2008	2007
Natural resources production tax	188,494	165,097
Property tax	27,781	21,638
Other taxes	<u>42,696</u>	<u>43,036</u>
<b>Taxes other than on income</b>	<b>258,971</b>	<b>229,771</b>

Natural resources production tax increased by 14% to RR 188,494 million in the year ended 31 December, 2008 from RR 165,097 million in the year ended 31 December, 2007. The increase mainly related to the crude oil production activity and was caused by increase in the world oil prices.

### Staff costs

Staff costs decreased by 3% to RR 240,607 million in the year ended 31 December, 2008 from RR 248,894 million in the year ended 31 December, 2007. The decrease mainly resulted from the deconsolidation of Gazprombank Group and Sibur Group and from the decrease of expenses associated with pension obligations. This was partly offset by the growth of average base salaries and consolidation of OAO Mosenergo, OAO WGC-2 and OAO WGC - 6.

### Depreciation

Depreciation increased by 6% to RR 195,016 million in the year ended 31 December, 2008 from RR 183,577 million in the year ended 31 December, 2007. The increase primarily relates to the growth in fixed asset base.

### Transit of gas, oil and refined products

Transit of gas, oil and refined products increased by 22% to RR 185,269 million in the year ended 31 December, 2008 from RR 152,093 million in the year ended 31 December, 2007. This increase mainly relates to the increase in volumes of gas transportation through the territories of Eastern Europe effected by Gazprom Group and increase in volumes of transportation effected by Gazprom Neft Group.

### Repairs and maintenance

Cost of repairs and maintenance increased by 29% to RR 152,234 million in year ended 31 December, 2008 from RR 118,058 million in the year ended 31 December, 2007. This growth resulted from the increase in activity of the third parties providing repair services to the Group.

### Cost of goods for resale, including refined products

Cost of goods for resale, including refined products increased by 134% to RR 132,801 million in the year ended 31 December, 2008 from RR 56,643 million in the year ended 31 December, 2007. The increase in cost of goods for resale, including refined products, mainly results from operations of Gazprom Germania Group (purchase and sale of electricity) which accounts for 64% of the total increase in operating expenses and is also caused by the increase in prices for refined products and increase in volumes of refined products purchased.

### Materials

Cost of materials decreased by 4% to RR 90,722 million in the year ended 31 December, 2008 from RR 94,520 million in the year ended 31 December, 2007. The decrease was primarily caused by the lower amount of materials used for repair purposes. In the year ended 31 December, 2008 more repairs were performed by third parties. Also decrease of materials relates to Sibur Group deconsolidation as of 30 June, 2008.

### Electricity and heating expenses

Electricity and heating expenses increased by 8% to RR 48,691 million in the year ended 31 December, 2008 from RR 44,901 million in the year ended 31 December, 2007. The increase was mainly caused by the increase in electricity consumption and increase in share of electricity, purchased at market (not regulated) prices.

### Other operating expenses

Other operating expenses decreased by 43% to RR 73,130 million in the year ended 31 December, 2008 from RR 128,136 million in the year ended 31 December, 2007. Other operating expenses mainly decreased due to inclusion of gain from revaluation of accounts receivable nominated in foreign currency in the amount of RR 50,073 million for the year ended 31 December, 2008, compared to loss in the amount of RR 11,802 million for the year ended 31 December, 2007. Other operating expenses include heating transfer services purchased by OAO Mosenergo, bank charges, security services, legal and consulting services, and advertising.

### **Impairment provision and other provisions**

The Group conducted an impairment test of its property plant and equipment, goodwill, investments in associated undertakings and jointly controlled entities and other assets when there were indicators that these assets may be impaired. The recoverable amount used in the impairment tests has been determined on the basis of the projected cash flows and the value in use of such asset or cash-generating units.

For non financial assets, the Group conducted an impairment test of its cash-generating units, for which the values in use have been calculated as the present values of projected future cash flows discounted by the Group's weighted average cost of capital, as adjusted, where applicable, to take into account any specific risks of business operations related to the cash-generating units. The Group used discount rates ranging from 10 to 17%. The cash flow projections cover periods commensurate with the production cycles and expected lives of the respective assets. The Group used either steady or declining growth rates to extrapolate cash flows beyond the period, for which the Group usually prepares its budget. Based on the results of this test the Group recognized an impairment loss of RR 51,031 million for power generating assets, including goodwill on the acquisition of OAO WGC-2 and OAO WGC-6. The impairments were primarily triggered by the increase in discount rates, projected reduction in electricity consumption and expected oil and electricity prices.

Included in the impairment and other provisions are provisions for short-term and long-term accounts receivable in the amount of RR 42,057 million and RR 1,348 million for the years,



ended 31 December, 2008 and 2007 respectively and impairment provision for other investments in the amount of RR 2,726 million and RR 1,422 million for the years, ended 31 December, 2008 and 2007.

For associated undertakings, where there was an indication that the carrying value of investments in associated undertakings and jointly controlled entities might not be recoverable the Group conducted an impairment test of such investments as of 31 December, 2008. The total impairment loss, included in share of net income (loss) of associated undertakings and jointly controlled entities of RR 28,181 million related primarily due to projected decrease in crude oil and electricity consumption and prices and the increase in discount rates.

### Operating profit

As a result of the factors discussed above, the Group's operating profit increased by RR 558,528 million, or 80%, to RR 1,260,306 million in the year ended 31 December, 2008 from RR 701,778 million in the year ended 31 December, 2007. Operating profit margin increased from 29% in the year ended 31 December, 2007 to 36% in the year ended 31 December, 2008.

### Loss from change in fair value of call option

In April 2007, ENI S.p.A. offered the Group an option to acquire its 20% interest in OAO Gazprom Neft by April 2009, at a price of U.S.\$ 4.1 billion. For the year ended 31 December, 2008 the fair value of the option decreased from RR 50,738 million as of 31 December, 2007 to nil as of 31 December, 2008.

### Finance income and expenses

(RR million)	Year ended 31 December,	
	2008	2007
Exchange gains	118,746	82,936
Exchange losses	<u>(281,269)</u>	<u>(55,598)</u>
Net exchange (loss) gain	(162,523)	27,338
Interest income	46,822	75,394
Interest expense	(59,910)	(76,975)
Gains on and extinguishment of restructured liabilities	<u>35</u>	<u>1,050</u>
<b>Net finance income (expense)</b>	<b>(175,576)</b>	<b>26,807</b>

Exchange gains increased by 43% to RR 118,746 million in the year ended 31 December, 2008, compared to RR 82,936 million in the year ended 31 December, 2007. Exchange losses increased by 406% to RR 281,269 million in the year ended 31 December, 2008 from RR 55,598 million in the year ended 31 December, 2007. The net exchange loss of RR 162,523 million in the year ended 31 December, 2008 compared to net exchange gain of RR 27,338 million in the year ended 31 December, 2007, is explained mainly by the appreciation of U.S.\$ against RR for the year ended 31 December, 2008 compared to depreciation of U.S.\$ against RR in the year ended 31 December, 2007.

Interest income decreased by 38% to RR 46,822 million in the year ended 31 December, 2008 from RR 75,394 million in the year ended 31 December, 2007, mainly caused by deconsolidation of OAO Gazprombank, whose main activities were providing credits and loans to individuals and entities.

Interest expense decreased by 22% from RR 76,975 million in the year ended 31 December, 2007 to RR 59,910 million in the year ended 31 December, 2008 mainly due to deconsolidation of Gazprombank Group.

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

Share of net loss of associated undertakings and jointly controlled entities in the year ended 31 December, 2008, amounted to RR 16,686 million compared to the share of net income of associated undertakings and jointly controlled entities for the year ended 31 December, 2007 which amounted to RR 24,234 million. Share of net loss is mainly caused by impairment of the equity investment in OAO Tomskneft VNK primarily due to expected continuing low crude oil prices and share of loss of Gazprombank Group in the second half of 2008.

### Profit tax

Total profit tax expense increased by RR 31,033 million, or 14%, to RR 260,252 million in the year ended 31 December, 2008 compared to RR 229,219 million in the year ended 31 December, 2007. This was caused mainly by fluctuation of certain non-taxable items including gain and loss from change in fair value of call option with ENI S.p.A. and certain impairment provisions in the years ended 31 December, 2008 and 2007, respectively.

The benefit of the change of the tax rate from 24% to 20% starting from January 1, 2009, is included in the deferred profit tax for the year ended 31 December, 2008 in the amount of RR 52,230 million. Excluding the effect of change in tax rate from 24% to 20% in the year ended 31 December, 2008 compared to the year ended 31 December, 2007 the Group's effective tax rate increased by 5% from 25% to 30%.

### Profit for the period attributable to equity holders of OAO Gazprom

As a result of the factors discussed above, the profit for the period attributable to equity holders of OAO Gazprom increased by RR 84,890 million or 13%, from RR 658,038 million in the year ended 31 December, 2007 to RR 742,928 million in the year ended 31 December, 2008.

### Profit for the period attributable to minority interest

Minority interest decreased by 23% to RR 28,452 million in the year ended 31 December, 2008 compared to RR 36,947 million in the year ended 31 December, 2007 mainly due to deconsolidation of Gazprombank Group effective 24 June, 2008.

## LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the statements of cash flows:

(RR million)	Year ended 31 December,	
	2008	2007
Net cash provided by operating activities	1,016,551	598,508
Net cash used for investing activities	(895,598)	(892,241)
Net cash (used for) provided by financing activities	(68,893)	309,706

### Net cash provided by operating activities

Net cash provided by operating activities amounted to RR 1,016,551 million in the year ended 31 December, 2008 compared to RR 598,508 million in the year ended 31 December, 2007. The increase of RR 418,043 million was primarily due to Group's operating profit growth for 2008 in comparison with 2007.

### Net cash used for investing activities

Net cash used for investing activities amounted to RR 895,598 million in the year ended 31 December, 2008 compared to RR 892,241 million in the year ended 31 December, 2007. The

increase was primarily due to higher capital expenditures on field development and gas transportation infrastructure (see Capital Expenditures).

#### Net cash (used for) provided by financing activities

Net cash used for financing activities amounted to RR 68,893 million in the year ended 31 December, 2008 compared to net cash provided by financing activities in the amount of RR 309,706 million in year ended 31 December, 2007. This change was primarily due to repayment of a portion of long-term borrowings, and also due to decrease of fund raising activities.

#### Working capital

The working capital surplus (current assets less current liabilities) was RR 607,230 million as of 31 December, 2008 and RR 481,863 million as of 31 December, 2007. The RR 125,367 million increase in working capital in year ended 31 December, 2008 was primarily due to a decrease in short-term borrowings and in the current portion of long-term borrowings, increases in cash and cash equivalents and inventories. These effects were partially offset by a decrease in short-term investments and accounts receivables and prepayments. The decrease of short-term borrowings and current portion of long-term borrowings amounted to RR 71,430 million and was mainly due to the deconsolidation of Gazprombank Group. The increase of inventories amounted to RR 31,548 million and was mainly due to increase in the volume of stored gas. The decrease of accounts receivable and prepayments amounted to RR 21,530 million was mainly due deconsolidation of Gazprombank Group. The decrease of short-term investments by RR 90,463 million was primarily due to the deconsolidation of Gazprombank Group. Management believes that the Group has sufficient working capital to meet the Group's requirements for at least the next twelve months. However, the Group is dependent on the short-term credit markets to finance its working capital; it also depends on regular access to the domestic rouble bank loan and rouble debt markets to meet a significant portion of its financing requirements.

### **CAPITAL EXPENDITURES**

Total capital expenditures (excluding the effect of acquisitions of subsidiaries and reclassifications) by the major lines of operations for the year ended 31 December, 2008 and 2007 in nominal RR terms, amounted to the following:

(RR million)	<b>Year ended 31 December,</b>	
	<b>2008<sup>(1)</sup></b>	<b>2007<sup>(1)</sup></b>
Transport	280,457	197,849
Production of gas	252,645	185,722
Production of crude oil and gas condensate	94,432	66,237
Refining	55,419	38,671
Distribution	33,915	39,088
Other	<u>84,463</u>	<u>49,318</u>
<b>Total</b>	<b>801,331</b>	<b>576,885</b>

Note:

<sup>(1)</sup> The capital expenditures in the present analysis may differ from the capital additions disclosed within the Group's business segments in IFRS consolidated financial statements of OAO Gazprom for 2008 primarily due to VAT included in the amounts above.

Total capital expenditures (excluding the effect of acquisitions of subsidiaries and reclassifications) increased by RR 224,446 million, or 39%, from RR 576,885 million in the year

ended 31 December, 2007 to RR 801,331 million in the year ended 31 December, 2008. The increase of capital expenditures in the Production of gas segment was primarily due to increased capital investments in the new wells and associated gas preparation units at the Bovanenkovskoye, Shtokmanovskoye and Pirazlomnoye fields. The increase of capital expenditures in the Transportation segment was primarily due to increased capital expenditure on the construction of major transportation projects, including Bovanenkovo-Ukhta, SRTO-Torzhok and Gryazovets-Vyborg trunk pipelines and Nord Stream. The increase of capital expenditures in the Production of crude oil and gas condensate segment was primarily due to increased capital expenditure of Gazprom Neft Group. The increase of capital expenditures in the Other segment was primarily due to increased capital expenditure of OAO Mosenergo.

## DEBT OBLIGATIONS

Net debt balance (defined as the sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities, net of cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations) decreased by RR 210,237 million, or 17%, from RR 1,228,583 million as of 31 December, 2007 to RR 1,018,346 million as of 31 December, 2008. This decline can be explained by a significant decrease of long-term and short-term borrowings due to deconsolidation of Gazprombank Group.

(RR million)	<u>As of 31 December,</u>	
	<u>2008</u>	<u>2007</u>
<b>Long-term borrowings</b>		
Fixed interest rate borrowings.....	914,937	869,194
Weighted average interest rates for fixed rate borrowings .....	6.65%	6.10%
Variable interest rate borrowings.....	247,313	386,357
Weighted average interest rates for variable rate borrowings .....	4.64%	6.34%
<b>Total long-term borrowings .....</b>	<b>1,162,249</b>	<b>1,255,551</b>
RR denominated borrowings .....	95,035	165,146
Foreign currency denominated borrowings .....	1,067,214	1,090,405
<b>Total long-term borrowings .....</b>	<b>1,162,249</b>	<b>1,255,551</b>
Less: current portion of long-term borrowings .....	(239,019)	(274,143)
Add: long-term promissory notes, net of discount.....	1,718	3,555
Average discount on promissory notes .....	-	7.62%
<b>Total long-term debt obligations .....</b>	<b>924,948</b>	<b>984,963</b>
<b>Short-term debt borrowings</b>		
Fixed interest rate borrowings.....	94,265	189,122
Weighted average interest rates for fixed rate borrowings .....	6.25%	6.33%
Variable interest rate borrowings.....	99,356	40,805
Weighted average interest rates for variable rate borrowings .....	5.60%	6.59%
<b>Total short-term borrowings.....</b>	<b>193,621</b>	<b>229,927</b>
RR denominated borrowings .....	90,770	129,331
Foreign currency denominated borrowings .....	102,851	100,596
<b>Total short-term borrowings.....</b>	<b>193,621</b>	<b>229,927</b>
Plus: Current portion of long-term borrowings.....	239,019	274,143
Short-term promissory notes, net of discount .....	8,052	21,455
Average discount on promissory notes .....	-	6.44%
<b>Total short-term debt obligations.....</b>	<b>440,692</b>	<b>525,525</b>
<b>Total borrowings.....</b>	<b>1,365,640</b>	<b>1,510,488</b>

The following table shows the actual foreign currency denominated long-term borrowings (expressed in millions of U.S.\$) as of 31 December, 2008 and 2007 as well as the same balances expressed in RR:

	<b>As of 31 December,</b>	
	<b>2008</b>	<b>2007</b>
U.S.\$ denominated (expressed in millions of U.S.\$) .....	23,125	31,912
Euro denominated (expressed in millions of U.S.\$) <sup>(1)</sup> .....	13,196	12,482
Other currencies denominated (expressed in millions of U.S.\$)	3	28
<b>Total long-term convertible-currency-denominated borrowings expressed in millions of U.S.\$</b> .....	<b>36,324</b>	<b>44,423</b>
<b>Total long-term convertible-currency-denominated borrowings expressed in millions of RR</b> <sup>(2)</sup> .....	<b>1,067,214</b>	<b>1,090,405</b>

Notes:

(1) Converted at the euro to U.S.\$ exchange rate of 1.41 и 1.46 as of 31 December, 2008 and 2007, respectively.

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

A portion of long-term borrowings denominated in convertible currencies is collateralized by receivables under certain of the Group's export contracts. As of 31 December, 2008 and 2007, borrowings of RR 30,451 million and RR 28,645 million, respectively, inclusive of current portion of long-term borrowings, were secured by revenues from export supplies of gas to Western Europe. The Group has not increased its borrowings secured by revenues from export supplies of natural gas to Western Europe since 31 December, 2008.

The following table shows the schedule of repayments for long-term borrowings (excluding long-term promissory notes) as of 31 December, 2008 and 2007:

	<b>As of 31 December,</b>	
	<b>2008</b>	<b>2007</b>
<b>(RR million)</b>		
Between one and two years.....	181,615	188,171
Between two and five years .....	267,294	277,673
After five years .....	474,321	515,564
<b>Total</b> .....	<b>923,230</b>	<b>981,408</b>

In October 2005, the Group acquired a 72.66% interest in Gazprom Neft, which increased the Group's total interest in Gazprom Neft to 75.68%, for U.S.\$13.1 billion. Gazprom Group financed this transaction through additional borrowings of U.S.\$13.1 billion, which consisted of U.S.\$8.1 billion in long-term facilities and U.S.\$5.0 billion in facilities with a stated maturity of three years plus one day, but for which the lenders have the right to recall any amounts borrowed for repayment six months after drawdown. As of 31 March, 2009, the Group repaid U.S.\$12.6 billion of the amount that was borrowed in order to finance the acquisition of Gazprom Neft.

## SHAREHOLDER STRUCTURE AND STOCK MARKET OF OAO GAZPROM

OAO Gazprom's charter capital amounts to RR 118,367,564,500, consisting of 23,673,512,900 common shares with a nominal value of RR 5 each. The total number of the Company's registered shareholders as of the end of the year was 47,611, including 11 nominee holders.

Together with its ordinary shares, OAO Gazprom issued American Depositary Receipts (ADRs) for OAO Gazprom ordinary shares. In April 2006 OAO Gazprom implemented a program of issuance of Level I American Depositary Receipts which provides for a free conversion of Gazprom shares into ADRs and vice versa. The Bank of New York Mellon acts as the depository bank for the program. At present, Gazprom's Level I ADRs are freely tradeable on the over-the-counter stock market in the United States and on European exchanges such as the London Stock Exchange (LSE), the Berlin-Bremen Stock Exchange and the Frankfurt Stock Exchange.

The maximum volume of the shares subject to ADRs may not exceed 35% of Gazprom's charter capital. According to Rule C ADRs for OAO Gazprom's shares issued in 1996 pursuant to a private placement were automatically converted into Level I ADRs and remain listed on the LSE.

The following table summarises shareholder structure of OAO Gazprom as of the last working days of 2008 and 2007:

	<u>As of 31 December,</u> <u>2008</u>	<u>As of 29</u> <u>December, 2007</u>
Interest controlled by the Russian Federation, total, including:	50.002	50.002
Russian Federation represented by the Federal Agency For State Property Management	38.373	38.373
OAO Rosneftegaz	10.740	10.740
OAO Rosgazifikatsiya	0.889	0.889
ADR holders	22.150	21.020
Other entities	27.848	28.978

In 2008 the shareholder structure did not undergo significant changes. The Russian Federation remains the major shareholder of OAO Gazprom. Taking into account OAO Gazprom voting shares owned by OAO Rosneftegaz and OAO Rosgazifikatsiya (10.740% and 0.889%, respectively), the state controls 50.002%.

The share of ADR holders in OAO Gazprom equity slightly increased to 22.150% at the year end (end of 2007 – 21.020%). The first half of 2008 was marked by a sustainable growth of the ADR holders' share that reached 23.640% in July. Starting from the second half of July, the domination of transactions for ADR conversion into local shares was noted. As a result, in 2008 the increase in the ADR holders' share in equity was 1.130%.

In 2008 quotations of ADR and OAO Gazprom capitalization significantly decreased. Based on the annual results, the Company's ordinary shares declined by 68.3% in the Moscow Interbank Currency Exchange (MICEX), ADR's on OAO Gazprom shares decreased by 74.9% in the LSE. Changes in the price of OAO Gazprom shares and ADRs in 2008 and 2007 are presented in the table below.

Closing price	2008	2007	Change, %
	<b>Price for share in MICEX, RR</b>		
Year end	108.60	342.88	-68.33
Minimum	86.60	227.99	-62.02
Maximum	367.40	357.20	2.86
	<b>Price for ADR<sup>(1)</sup> in LSE, U.S.\$</b>		
Year end	14.25	56.70	-74.87
Minimum	11.91	35.40	-66.36
Maximum	62.50	58.50	6.84

Note:

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

ADRs for OAO Gazprom shares were primarily traded in the London Stock Exchange in the reporting year. The average daily trading volume in 2008 was U.S.\$ 578 million, which is almost 81% higher than the similar amount in the previous year.

The most trading of OAO Gazprom took place on MICEX in the form of local shares and LSE in the form of ADRs. The Russian Trading System, St. Petersburg Stock Exchange and Frankfurt Stock Exchange accounted for only 0.9% of the total volume of exchange trading of OAO Gazprom shares and ADRs in 2008.

The average capitalization of OAO Gazprom decreased by 7% in 2008 and totaled U.S.\$ 241.1 billion (2007 – U.S.\$ 259.0 billion). Despite the decline in the capitalization in 2008 OAO Gazprom had a leading position in the market capitalization level among European companies in that period and was one of the top ten global energy companies in terms of market capitalization.

Dividend payments in 2008 based on OAO Gazprom results for 2007 are as follows:

	As of 31 December, 2008			
	Accrued, RR thousand	Paid, RR thousand	Unpaid dividends, RR thousand <sup>(1)</sup>	Proportion of unpaid and accrued dividends, %
Total	62,967,022	62,281,122	685,900	1.09
including dividends on shares:				
– owned by the state	24,164,165	24,164,165	–	–
– owned by state-controlled legal entities: OAO Rosneftgaz and OAO Rosgazifikatsiya	7,322,737	7,322,737	–	–
– owned by individuals and legal entities (apart from state-controlled)	31,478,628	30,794,220	684,408	2.17
– owned by undefined holders	1,492	–	1,492	100

Note:

(1) Dividends are not paid to individuals for the reason of their death the information on which was received as of the date of dividend payments. Dividends are not paid to shareholders (legal entities and individuals) that did not provide data required for dividend payments as per para 5, art. 44 of Federal Law No. 208-FZ, On Joint Stock Companies dated 26 December, 12. 1995. Dividends accrued on shares of undefined holders are paid as the shareholders' rights for securities are established.

## **MANAGEMENT STRUCTURE OF OAO GAZPROM**

The rights of OAO Gazprom shareholders and regulation of OAO Gazprom management activity are determined by and carried out in accordance with the legislation of the Russian Federation and may differ from the regulating practice in companies registered in Great Britain.

In accordance with the Federal Law “On Joint Stock Companies” and OAO Gazprom’s Charter, OAO Gazprom’s operations are governed by OAO Gazprom’s General Meeting of Shareholders, Board of Directors, Management Committee and the Chairman of Management Committee. The General Meeting of Shareholders is OAO Gazprom’s highest governing body and, among other things, elects OAO Gazprom’s Board of Directors. OAO Gazprom’s Board of Directors is responsible for formulating the strategy and the executive bodies (Management Committee and the Chairman of Management Committee) are responsible for implementing the strategy and managing OAO Gazprom on a day-to-day basis. All the governing bodies act in compliance with the effective laws of the Russian Federation, OAO Gazprom Charter and the regulations of these governing bodies which were approved by the General Meeting of Shareholders of OAO Gazprom.

### **General Meeting of Shareholders**

The General Meeting of Shareholders takes place annually, usually in June. The following decisions, among others, can be taken only by the General Meeting of Shareholders: amendments to the Charter, OAO Gazprom reorganization or liquidation, the election of the members of OAO Gazprom’s Board of Directors and Audit Commission, the determination of the quantity, category and nominal price of authorized shares as well as rights arising out of the ownership of shares, increases in the charter capital (when such decision is reserved for the General Meeting of Shareholders in accordance with provisions of the Joint Stock Companies Law), reduction of the charter capital, approval of the annual report, annual accounts and distribution of profit for the year, approval of large transactions and transactions that involve interested parties (where such decision is reserved for the General Meeting of Shareholders in accordance with the Federal Law “On Joint Stock Companies”), as well as making other decisions in accordance with the terms of the law “On Joint Stock Companies”.

### **Board of Directors**

OAO Gazprom’s Board of Directors is responsible for the general management of OAO Gazprom’s activities. The General Meeting of Shareholders determines the number of members of OAO Gazprom’s Board of Directors, which cannot be less than nine.

The powers of OAO Gazprom’s Board of Directors include, in particular: determining the priorities of OAO Gazprom operations, approving annual budgets, calling General Meetings of Shareholders and determining the agenda for such meetings, determining the record date for OAO Gazprom General Meetings of Shareholders, increasing OAO Gazprom charter capital (except where such increase is within the competence of the General Meeting of Shareholders as provided by Federal Law “On Joint Stock Companies”), issuing bonds or other securities in accordance with the Joint Stock Companies Law, appointing OAO Gazprom executive bodies (such as Management Committee and the Chairman of Management Committee), deciding on early termination of the powers of these bodies, approving candidates nominated by the Chairman of Management Committee for the position of Deputy Chairman of Management Committee, determining the remuneration of the Chairman and members of Management Committee, recommending the size of dividends for approval by the General Meeting of Shareholders, using the reserve and other funds, creating branch and representative offices, specifying the means of effecting transactions, adopting decisions on major transactions and certain “interested party” transactions (except for those major or “interested party” transactions for which approval is within the competence of the General Meeting of Shareholders),



establishing the terms of cooperation with subsidiaries and organizations of which OAO Gazprom holds stock and equity participations, and other matters.

Members of OAO Gazprom's Board of Directors are elected by the General Meeting of Shareholders by a system of cumulative voting for a term lasting until the next annual General Meeting of Shareholders and may be re-elected an unlimited number of times. The General Meeting of Shareholders may also terminate the authority of all members of OAO Gazprom's Board of Directors before the expiration of their terms. Members of Management Committee may not comprise more than one-quarter of OAO Gazprom's Board of Directors. The Chairman of OAO Gazprom's Board of Directors is elected from and by the members of OAO Gazprom's Board of Directors by a majority vote and may be re-elected at any time by a special resolution requiring at least a two-thirds majority. The Chairman of Management Committee cannot simultaneously serve as the Chairman of OAO Gazprom's Board of Directors.

### **Management Committee and Chairman of the Management Committee**

The Management Committee and the Chairman of the Management Committee are OAO Gazprom's executive bodies. The Chairman and other members of the Management Committee are each appointed by OAO Gazprom's Board of Directors for a term of five years. OAO Gazprom's Board of Directors has the right to terminate the authority of any member of the Management Committee as well as the Chairman of the Management Committee.

The competence of Management Committee includes: developing forward-looking plans and principal programs for approval by OAO Gazprom's Board of Directors, including OAO Gazprom's annual budget and investment programs, and preparing reports on the implementation of those programs; organizing gas flow management and management of the UGSS; organizing control over the development of OAO Gazprom's current and prospective plans and programs; approving the rules governing the proper organization and reliability of OAO Gazprom's bookkeeping and the timely preparation of the annual report and other financial reports; and presenting information about OAO Gazprom's activities for the use of shareholders, creditors, and the media.

The Management Committee meets, in general, at least twice every month in accordance with a schedule that is approved by the Chairman of the Management Committee.

The Chairman of the Management Committee has authority to act in OAO Gazprom's name without power of attorney, make the deals on behalf of OAO Gazprom, present OAO Gazprom's interests, approve staff, issue orders and decrees, give instructions to be carried out by all of OAO Gazprom's employees and issues internal documents with respect to the ongoing activities, with the exception of internal documents which are within the competence of OAO Gazprom's other management bodies.

### **Corporate governance**

Basic corporate governance principles are set out in the Corporate Governance (Conduct) Charter of OAO Gazprom approved by the company's shareholders at the General Shareholders' Meeting on 28 June, 2002. The Charter determines key principles of OAO Gazprom's corporate governance; participation of shareholders in OAO Gazprom management and their right to dividends; the system of corporate governance and control bodies; insider's information and control over "interested party" transactions, as well as OAO Gazprom's information transparency. Major provisions of the Charter are detailed in OAO Gazprom's internal documents:

- Provision on OAO Gazprom's General Meeting of Shareholders;
- Provision on OAO Gazprom's Board of Directors;
- Provision on OAO Gazprom's Management Board;
- Provision on the Chairman of OAO Gazprom's Management Committee;

- Provision on OAO Gazprom's Audit Commission;
- Procedure for documentation of shareholders' proposals and requirements related to the calling of OAO Gazprom's General Meeting of Shareholders;
- OAO Gazprom's dividend policy;
- OAO Gazprom's provision on disclosure;
- Procedure for informing shareholders on OAO Gazprom.

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

## **Members of the Board of Directors and Management Committee**

### Information on members of the Board of Directors as of 31 December, 2008

<b>Name</b>	<b>Year of Birth</b>	<b>Position</b>
<b>V. Zubkov</b>	1941	Chairman of OAO Gazprom's Board of Directors and First Deputy Prime Minister of the Russian Federation
<b>A. Miller</b>	1962	Deputy Chairman of OAO Gazprom's Board of Directors and Chairman of OAO Gazprom's Management Committee
<b>A. Ananenko</b>	1952	Deputy Chairman of OAO Gazprom's Management Committee
<b>B. Bergmann</b>	1943	
<b>F. Gazizullin</b>	1946	
<b>E. Karpel</b>	1944	Head of the Economic and Appraisal Department
<b>E. Nabiullina</b>	1963	Minister for Economic Development of the Russian Federation
<b>M. Sereda</b>	1970	Deputy Chairman of OAO Gazprom's Management Committee and Head of Administration of OAO Gazprom's Management Committee
<b>V. Khristenko</b>	1957	Minister for Industry and Trade of the Russian Federation
<b>I. Yusufov</b>	1956	Special Representative of the President of the Russian Federation for International Energy Cooperation and Ambassador-at-large of the Ministry of Foreign Affairs of the Russian Federation

### Changes to the Board of Directors in 2008.

#### **D. Medvedev**

Chairman of the Board of Directors (until 27 June, 2008)

#### **V. Zubkov**

Chairman of the Board of Directors (starting 27 June, 2008)

#### **G. Gref**

Member of the Board of Directors (until 27 June, 2008)

#### **E. Nabiullina**

Member of the Board of Directors (starting 27 June, 2008)

#### **B. Fedorov**

Member of the Board of Directors (until 19 November, 2008)

## Members of the Management Committee as of 31 December, 2008

<b>Name</b>	<b>Year of Birth</b>	<b>Position</b>
<b>A. Miller</b>	1962	Chairman of OAO Gazprom's Management Committee
<b>A. Ananikov</b>	1952	Deputy Chairman of OAO Gazprom's Management Committee
<b>E. Vasilieva</b>	1959	Deputy Chairman of OAO Gazprom's Management Committee and OAO Gazprom's Chief Accountant
<b>V. Golubev</b>	1952	Deputy Chairman of OAO Gazprom's Management Committee
<b>A. Kozlov</b>	1952	Deputy Chairman of OAO Gazprom's Management Committee
<b>A. Kruglov</b>	1969	Deputy Chairman of OAO Gazprom's Management Committee and Head of the Finance and Economics Department
<b>A. Medvedev</b>	1955	Deputy Chairman of OAO Gazprom's Management Committee and General Director of OOO Gazprom Export
<b>S. Khomyakov</b>	1953	Deputy Chairman of OAO Gazprom's Management Committee and General Director of OAO Gazprom's Corporate Security Service Branch in Moscow
<b>O. Aksyutin</b>	1967	Head of the Gas Transportation, Underground Storage and Utilization Department
<b>Y. Golko</b>	1961	Head of the Department of Investment and Construction
<b>N. Dubik</b>	1971	Head of the Legal Department
<b>V. Ilyushin</b>	1947	Head of the Department for Relations with Regional Authorities of the Russian Federation
<b>O. Pavlova</b>	1953	Head of the Asset Management and Corporate Relations Department
<b>V. Podyuk</b>	1946	Head of the Gas, Gas Condensate and Oil Production Department
<b>V. Rusakova</b>	1953	Head of the Strategic Development Department
<b>K. Seleznev</b>	1974	Head of the Gas and Liquid Hydrocarbons Processing and Marketing Department and General Director of OOO Mezhtregiongaz
<b>I. Fedorov</b>	1965	General Director of OOO Gaskomplektimpex

### Changes to the Management Committee in 2008

#### **O. Aksyutin**

Member of the Management Committee

(elected according to Decision No. 1300 of the Board of Directors of 5 November, 2008)

#### **N. Dubik**

Member of the Management Committee

(elected according to Decision No. 1229 of the Board of Directors of 16 June, 2008)

#### **B. Budzulyak**

Head of the Gas Transportation, Underground Storage and Utilization Department, relieved of the position on his own will due to retirement on 30 September, 2008 (duties of a member of the Management Committees are terminated according to Decision of the Board of Directors No. 1299 dated 5 November, 2008)

#### **K. Chuichenko**

Head of the Legal Department, relieved of the position due to the reassignment to the Administration of the President of the Russian Federation on 12 May, 2008 (duties of a member

of the Management Committee are terminated according to Decision of the Board of Directors No. 1228 dated 10 June, 2008)

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

Key management personnel (the members of the Board of Directors and Management Committee of OAO Gazprom) short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies, amounted to approximately RR 2,056 million and RR 1,697 million for the years ended 31 December 2008 and 2007, respectively. Such amounts include personal income tax and are net of unified social tax. Government officials, who are directors, do not receive remuneration from the Group. The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

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

The Group provided medical insurance and liability insurance for key management personnel. Voluntary medical insurance was RR 1 million and RR 1 million and liability insurance was RR 2 million and nil for the years ended 31 December 2008 and 2007, respectively.

Shares of the members of the Board of Directors, the Management Committee and the Chairman of the Management Committee in OAO Gazprom's equity

As of 31 December, 2008 the total share of the Board of Directors, members of the Management Committee and the Chairman of OAO Gazprom's Management Committee in OAO Gazprom equity was 0.0143475%.

## **KEY RISK FACTORS**

The Group is exposed to a wide range of risks due to the effects of external factors (strategic and country-specific risks, regulation risks and financial risks) as well as internal factors (operational risks). The key risk factors set forth below may significantly affect the results of OAO Gazprom, its subsidiaries and the Group as a whole, as the context may require, in case such risk is realized. The risk factors highlighted in this section should be considered together with the information included in the IFRS consolidated financial statements for the year ended 31 December, 2008.

### **Strategic and country-specific risks**

#### Risks relating to the global credit crunch developments

The ongoing global economic crisis has resulted in declining demand and investments, and, as a consequence, industrial downturn. Global financial and economic environment has had a significant effect on Russia's economy.

At the same time, as recessionary economic conditions persist worldwide, there is no guarantee that anti-crisis actions taken by the world's leading economies will set off the adverse developments. Thus, developed and developing economies alike continue to face the threat of further deterioration, including bankruptcy of key economic entities, growth of unemployment and increased social strain.

These unfavorable economic conditions could have an adverse effect on the Group's operations.

#### Risks of energy sector regulation in the European Union

Energy sector regulation is evolving in several areas, the most important being competition, customs, tax and environmental legislation, and energy security.

Energy security is based on the policy of encouraging energy efficiency and reduced dependence on imported energy carriers from a single source. Such policy is actively pursued in Europe and it is set out in the EU Green Book. As Gazprom is the major energy exporter in the region, it is primarily affected by the reform. This can result in the decrease in the Group's market share in the European market where it conventionally exported its products.

The third "Energy Package", i.e. new draft energy directives aimed at further liberalization of the EU energy market, is expected to be presented for approval to the European Parliament and European Council in the first half of 2009. The directive proposes to separate production facilities (extractive assets for natural gas and generating assets for electricity) from transportation networks on the EU territory, i.e. gas pipelines and high-voltage electricity transmission grids. When these requirements become effective, they may significantly affect both European companies and foreign energy groups present in the European market, including the Group.

#### Risks relating to gas prices and sales volumes in the European market

Gazprom largely sells natural gas in Europe. Export sales of gas generate a major portion of the Group's revenue. Gas is exported to the European countries under long-term contracts based on world prices for competitive oil products. Such prices can be subject to significant fluctuations due to factors outside Gazprom's control.

Oil and oil products prices plummeted in the latter half of 2008. However, due to pricing specifics of the European gas market represented, in particular, by the base period (mostly 9 months) in the gas price indexation formula, the price of the gas supplied by Gazprom to the European market reached its historic high by the end of the year. The price gap was set off by significant decrease in gas volumes taken under long-term contracts.

The current level of world prices for oil and oil products will result in the expected reduction of Gazprom's revenue, however, if stagnation continues and world economy enters the recession cycle, the risks of further decline of energy sources prices, slowdown in their consumption and further decrease of Gazprom's export revenue are highly probable.

#### Risks of state regulation in the sector

The Russian Federation controls 50.002% of OAO Gazprom's shares. Control over OAO Gazprom's cash flows is exercised by the governmental representatives in the Board of Directors whose powers include approval of the financial plan and the investment programme.

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

The Russian Government currently regulates wholesale prices for gas which the Group applies to the major portion of domestic sales; tariffs for trunk pipeline transportation services provided to independent producers; tariffs for trunk pipeline transportation services via gas distribution networks; charges for procurement and sale services as well as retail prices for gas.

#### Risks relating to prescriptive nature of pricing in the Russian Federation

Wholesale prices for natural gas supplied by Gazprom to customers in Russia, despite consistent changes made in 2000, are still below the prices applied to sales in Europe and other countries, even net of export duties and transit costs.

Gazprom discusses the necessity of bringing the regulated gas prices to an economically viable level with federal agencies, justifying the required parameters of such changes.

The effect of the economic crisis increases the risk that the prices will not be raised or the increase will be lower than planned. To minimize the risk, OAO Gazprom holds an ongoing dialogue with the Russian Government to improve the pricing policy pursued by the state and to make transition in 2011 from regulated wholesale prices for gas to regulated tariffs for its transit via trunk pipelines classified as operations of natural monopoly entities.

#### Risks relating to natural gas transit

Gazprom is exposed to risks relating to natural gas transit through the territory of transit states, primarily due to unauthorized withdrawals of transit gas and unjustified transit restrictions. Thus, the Ukraine repeatedly directed Gazprom's natural gas transited through its territory to the wrong designations and in early 2009 Ukraine suspended Russian gas transit via its transportation system. In each of the disputes with Ukraine Gazprom took all efforts to ensure gas supply to customers in Europe transited through Ukraine in compliance with contractual obligations. In January 2009, OAO Gazprom and NAK Naftogaz Ukraine signed new long-term contracts separately for transit of the Russian gas to Europe via Ukraine and supply of gas to consumers in Ukraine; the official signature ceremony was attended by Russian and Ukrainian prime ministers.

Transit countries are dependent on Gazprom for natural gas supplies. At the same time, no absolute guarantee can be provided that Gazprom will manage to prevent disputes and disagreements with the transit countries. If such conflicting situations arise, they may result in reduced or disrupted export supplies to Europe via transportation systems of these transit countries.

Gazprom makes every effort to diversify gas export routes and expand access to underground storage facilities abroad.

## Geographical and climatic risks

Gazprom's production in western Siberia accounts for a substantial portion of the overall natural gas production and it is characterized by challenging environmental conditions and high costs. Significant remoteness of western Siberian fields developed by Gazprom from key regions of product sales requires high gas transportation costs. The fields in the Yamal Peninsula and resources of the Russian continental shelf will be developed in even more harsh climates and, therefore, there is a risk that actual expenses to implement these projects may exceed the projections.

Gazprom's gas sales and foreign currency revenues may be significantly affected by climatic conditions of short-term (within a year) and long-term (global warming) nature alike.

## **Risks relating to customs, foreign currency and tax regulation**

### Risks of foreign currency regulation change

Gazprom is involved in international transactions, it has foreign currency denominated assets and liabilities and foreign currency accounts opened with foreign banks and their branches located in foreign countries, and accordingly, the Group is exposed to substantial risks relating to the change of foreign currency regulation.

At the background of ongoing liberalization of foreign currency legislation, the Russian Government and Central Bank of Russia undertook measures to increase control over transactions denominated in foreign currency. Thus, at the end of 2006 the Russian Government legislated additional disclosure requirements for authorized banks in the database of foreign currency denominated transactions and approved the Rules to ensure cooperation of professional participants of the securities market (other than authorized banks), customs and tax bodies acting as foreign currency control agents with the Russian Central Bank. The Russian Government's resolution No. 98 dated 17 February, 2007 approved the Rules requiring residents and non-residents to provide support documentation and information on their foreign currency denominated transactions to foreign currency control agents, except for the authorized banks.

Results of Gazprom's operations and ability to make payments under credit and loans may be negatively affected if the restrictions are restored which reduce capabilities for conversion of revenues denominated in Russian roubles to foreign currency and reverse conversion into Russian roubles due to the requirements of mandatory repatriation and conversion. In practice, settlements outside CIS are not made in Russian roubles, therefore, the Group has restricted ability to hedge the foreign exchange risks through conversion to other currencies. In Russia the conversion of Russian rouble to other currencies is regulated by rules and procedures that limit the range of purposes for which foreign currency conversion and payments are allowed.

### Tax legislation risks

Russian tax legislation is subject to frequent changes. Each year, laws are approved to amend the Russian Tax Code and modify procedures to calculate and settle specific taxes, thus, making it more difficult to prepare medium- and long-term forecasts for taxpayers' operations.

A number of laws were approved in view of the financial and economic crisis conditions; they were aimed at reducing the tax burden. As of 1 January, 2009 corporate income tax was reduced from 24% to 20%, VAT payment period was extended, depreciation premium of 30% was introduced for some groups of fixed assets. At the same time, payroll taxation is expected to be restructured. This may result in the increased tax burden. In addition, the Russian Ministry of Finance prepared a draft law designed to considerably tighten control over transfer pricing for taxation purposes.

Though the Group's tax burden was stable over the recent five years, despite the increased tax payments, no guarantees can be provided that it will not grow in relative terms in the future.

### Customs legislation risks

Effective January 2008 the Federal Customs Agency of the Russian Federation allowed unsecured natural gas supplies without customs documentation for the period of six months. In accordance with such practice OAO Gazprom/OAO Gazprom Export are not obliged to secure customs payments.

OAO Gazprom continues to discuss the issue of keeping the customs duty payment procedure applied to export gas supplies in accordance with Chapter 26 of the Russian Tax Code with the Federal Customs Agency of the Russian Federation. At the same time, it reserves the right to make a respective appeal to the Russian Government and arbitration court. But even if the existing arrangement for unsecured customs duty payments is preserved, the Group is exposed to risks arising from tough deadlines for cash transfers in order to make customs duty payments and strict compliance with 50% advance payment requirement under each contract.

The Group is periodically exposed to risks relating to the natural gas export to the European countries through the territory of Ukraine due to unauthorized withdrawals of gas designated for customers in Western Europe. It makes customs clearance considerably more complicated and, as a result, may require filing an appeal to an international arbitration court.

### **Financial risks**

#### Inflation and foreign exchange risk

Gazprom's sales revenue is largely denominated in U.S.\$ and euro, while most of the costs are denominated in Russian rubles. Therefore, changes in inflation rates and exchange rates significantly affect the Group's operational and financial results.

The Russian Central Bank pursues the policy of gradual depreciation of the national currency in the deteriorating crisis environment in the world financial markets. Russian rouble weakening against U.S.\$ and euro in real terms has no negative effect on Gazprom's performance. However, in view of considerable portfolio of borrowings denominated in easily convertible currencies (U.S.\$ and euro), continued strengthening of foreign currencies against Russian rouble may lead to reduced net profit due to increased amounts of credits and loans payable as a result of debt revaluation which, in its turn, will increase exchange losses.

Inflationary processes causing appreciation of raw materials used in the operational activity, when inflation component in the price for the natural gas sold by Gazprom is not set off, may have a significant adverse effect on the Group's net profit.

#### Interest rate risks

The global financial crisis accompanied by the decreased confidence in the banking system and liquidity deficit resulted in a significant growth in the monetary market rates and reduction of interbank crediting volumes. Higher uncertainty related to further development of the global economy and emerging markets in particular, led to the increase in risk premiums, which was primarily characterized by the growth in the price of insurance for Russian corporate issues of securities and decline in prices of Russian sovereign and corporate bonds.

In the current conditions risks of higher prices and fewer opportunities of raising debt for OAO Gazprom on previous terms are quite high, which may limit the investment program and require further revision of OAO Gazprom financial strategy and investment plans.

A part of OAO Gazprom debt portfolio is represented by syndicated loans from Western banks. The interest rate on many of these loans is based on LIBOR/EURIBOR rates. The increase in these interest rates results in higher debt servicing costs for OAO Gazprom. The Company sought to maintain the currency balance in its debt portfolio, similar to the proportion of currency in revenue, and regulate the share of fixed rate loans depending on the dynamics of



interbank interest rates, which enabled the Company to naturally hedge foreign currency risks and reduce the risk of increased interest expense in case interbank rates grow. By the end of 2008 fixed rate loans accounted for about 74% of Gazprom Group's debt portfolio.

#### Risks associated with non-cash settlements

The limited ability of certain customers in Russia and abroad to provide cash payments for natural gas supplied by the Group can have an adverse impact on OAO Gazprom operations. Historically, due to a complicated economic climate OAO Gazprom has been obliged to apply various forms of non-cash settlements with Russian companies, including promissory notes and bonds, equity stakes in gas companies' equity, as well as transfer of goods and services as payment for gas supplies to customers. At present, the receivables from a part of customers from Russia and FSU countries for natural gas previously supplied are not settled in full, and OAO Gazprom does not have guarantees that the above receivables will be fully paid in cash.

In previous years, payments for gas supplies have gradually improved, and the share of cash payments in OAO Gazprom gas sales has significantly increased to over 95%. However, current negative trends related to the global liquidity crisis and scarcity of credit resources result in a dramatic growth in the risk of lower creditworthiness of certain consumers, including in the markets where no such problems have previously occurred.

### **Operating risks**

#### Risks relating to non-extension of subsoil licenses

The Group operates in compliance with subsoil licenses for prospecting, exploration and production of hydrocarbons and geological survey of deposits. Licenses for production at major Group fields cover the period to 2012-2028.

Most licenses provide for an opportunity to suspend, amend or withdraw them if the requirements of license agreements are not complied with. OAO Gazprom satisfies license requirements and takes all required steps to minimize the probability of license withdrawal, suspension or amendment.

However risks relating to changes in legislation or decisions of federal or local authorities on licensing are beyond the Group's control, and there is no guarantee that there will be no such changes in the future that could have an adverse impact on the Group operations.

#### Risks relating to electricity business development

OAO Gazprom is set to electricity business development. The reform of the Russian electricity industry provided OAO Gazprom with an opportunity to participate in the restructuring of the sector and acquire a number of RAO UES generating assets.

At the same time, risks attributable to the electric power industry can now have an adverse impact on the general development of OAO Gazprom business. There is a probability that the expected increase in the economic efficiency of coal and gas use for electricity generation and savings of gas supplied for the purposes of the electric power industry will be lower than planned. Due to the decline in the industrial production there is a higher risk that technical upgrade plans that were based on the expectations of an intensive growth in demand for electricity will not be consistent with the market conditions. In the environment of financial crisis the Group's opportunities to raise debt in capital markets are being reduced. In these conditions, there is an increased risk of OAO Gazprom non-compliance with its investment obligations undertaken upon the acquisition of electricity assets in full.

### Cost growth risks

Over a number of recent years capital construction costs in the oil and gas industry grow faster than inflation. The key factors of such a growth are the increase in prices of raw and other materials, component parts, services, including prices of steel, gas compressor units, well drilling costs etc.

Due to the decrease in prices for raw materials in global commodity markets and a higher competition level, the decline in operating costs can be expected. However this decrease may not be as significant as expected due to the fact that many Group suppliers use foreign component parts and equipment the prices of which may increase considerably resulting from the Russian rouble devaluation.

To minimize risks relating to the growth in costs the Group organizes tenders to choose suppliers of goods, contractors/providers, and directly works with suppliers.

### Risks relating to implementation of technological innovations

Perspectives of OAO Gazprom operations are related to the implementation of projects in locations with difficult and specific climate and geological conditions. In this connection, OAO Gazprom demand for unique technology and equipment for economically efficient exploration of new hydrocarbon deposits will increase.

As there are no world analogues of operations in such conditions in new locations, there are risks of untimely receipt of technology and equipment required for successful project implementation. To satisfy these needs, OAO Gazprom performs ongoing R&D work to develop highly efficient gas technologies, new equipment and materials. The Company has designed a management and financial mechanism of the complete innovation cycle realization and using the Group's R&D results at the level of production.

### Risks relating to equipment failure or breakdown

Various factors, including equipment failure or breakdown, problems upon technology implementation, decrease in performance indicators lower than the expected production and efficiency levels can have an adverse impact on the upstream and downstream activities of OAO Gazprom. At the same time, the UGSS ensures the system reliability of gas supplies (i.e. in case of a failure at one of the sections gas can be supplied via other routes by means of intersystem shunt pipes). OAO Gazprom exercises an ongoing control over the UGSS condition, implements its reconstruction and upgrading, which reduces such risks.

### Environmental risks

OAO Gazprom production activity involves a potential risk of environmental disruption. This results in a risk of civil responsibility and necessity to perform rehabilitation activities.

Currently, it is difficult to estimate future costs related to environmental risks and compliance with the environmental legislation.

Nevertheless, the Group controls its activity to comply with relevant environmental regulations and implements various environmental programs. It is decided to make the corporate environmental policies stricter.

## **BRANCHES AND REPRESENTATIVE OFFICES OF OAO GAZPROM**

Below are the data on branches and representations of OAO Gazprom as of 31 December, 2008 as per OAO Gazprom's Charter.

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

## CONVERSION RATES

1 bcm of natural gas	35,316 billion cubic feet (bcf) of natural gas
1 bcf of natural gas	0.028 bcm of natural gas
1 metric ton of crude oil	1,000 kilos, 2,204.6 pounds, 7.33 barrels of crude oil, 8.18 barrels of gas condensate
1 barrel of crude oil	0.1364 metric ton of crude oil
1 barrel of gas condensate	0.1222 metric ton of gas condensate
1 kilometer	Approximately 0.62 miles
1 ton of fuel equivalent	877 cm of natural gas, 0.7 ton of gas condensate, 0.7 ton of crude oil
1 mcm of natural gas	1.154 ton of fuel equivalent
1 barrel of gas condensate	1 barrel of oil equivalent (boe)
1 mcm of natural gas	5.89 barrels of oil equivalent (boe)

## **GLOSSARY OF MAJOR TERMS AND ABBREVIATIONS**

### **ADR of OAO Gazprom**

American Depositary Receipt issued for OAO Gazprom shares. Equivalent of four ordinary shares of OAO Gazprom

### **Asia-Pacific Region**

Asia-Pacific Region. Includes countries of the continental Asia, America and Pacific zone.

### **boe**

Barrel of oil equivalent

### **FSU**

Foreign Soviet Union republics, except for the Russian Federation

### **Gazprom Group, Group, Gazprom**

An aggregate of entities which includes OAO Gazprom (Head Office) and its subsidiaries. The Management Report includes the list of subsidiaries based on the principles of preparation of OAO Gazprom's IFRS consolidated financial statements

### **Europe and other countries**

Countries other than Russia and the FSU countries.

### **RR**

Russian rouble

### **U.S.\$**

The United States Dollars

### **Europe**

For the purposes of the Report includes Western and Central Europe

### **EU**

European Union

### **UGSS**

Unified Gas Supply System of Russia

### **Associated undertaking**

Associated undertaking is a company over which the Group has significant influence and that are neither a subsidiary nor an interest in a joint venture. Significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of an entity but has no control or joint control over those policies

### **Western Europe**

Andorra, Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Greenland, Iceland, Republic of Ireland, Italy, Liechtenstein, Luxembourg, Malta, Monaco, The Netherlands, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, Turkey and the United Kingdom.

**Category ABC<sub>1</sub> hydrocarbon reserves**

Explored reserves, according to the Russian reserves system. Gas reserves in categories A, B and C<sub>1</sub> are considered to be fully extractable. For reserves of crude oil and gas condensate, a predicted coefficient of extraction is calculated based on geological and technical factors.

**Category C<sub>2</sub> hydrocarbon reserves**

Category C<sub>2</sub> represents reserves of a deposit the crude oil or gas content of which is calculated on the basis of geological and geophysical data within the known gas areas. Category C<sub>2</sub> reserves are preliminary estimated reserves and represent a basis for exploration work at a particular field.

**EU Green Paper**

Green Paper is a major document adopted in 2000 that sets forth the EU energy strategy.

**kWh**

Kilowatt hour

**Coverage ratio**

Adjusted EBITDA to interest expenses ratio

**cf**

Cubic feet

**LSE**

London Stock Exchange

**cm**

Cubic meter of natural gas measured under pressure of 1 bar at the temperature of 20°C

**SPE-PRMS Standards**

International classification and assessment of hydrocarbon reserves under PRMS (Petroleum Resources Management System). These standards do not only include the assessment of physical presence of hydrocarbons but also provide the economic viability of recovering the reserves (term of development license).

**MICEX**

Moscow Interbank Currency Exchange

**IFRS**

International Financial Reporting Standards accepted in EU

**VAT**

Value Added Tax

**Russian Government**

The Government of the Russian Federation

**R&D**

Research and Development

**NPZ**

Refinery

**Total debt**

Long-term and short-term loans and borrowings, long-term and short-term promissory notes, restructured tax payable

**UGS**

Underground Gas Storage

**Return on invested capital**

Calculated as operating and non-operating profit before interest, net of income tax to the average invested capital. Average invested capital is calculated as the average of equity and debt at the beginning and at the end of year. The calculation is performed based on target budget amounts upon planning and reports on budget fulfillment upon determination of actual numbers.

**Adjusted EBITDA**

Earnings before interest, taxes, depreciation, and amortization adjusted by changes in impairment provisions

**Net debt**

The sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities, net of cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations

**CIS**

Commonwealth of independent states - former Soviet Union republics except for Latvia, Lithuania and Estonia

**LNG**

Liquefied natural gas

**Jointly-controlled company**

Jointly controlled company is an entities which is jointly controlled by two or more parties

**Average capitalization**

Average price of shares at the close of business at MICEX at the annual average rate of the Central Bank of Russia multiplied by total number of issued shares of OAO Gazprom

**SPTO- Torzhok**

Gas pipeline from Northern parts of Tyumen region to Torzhok

**Baltic countries**

Latvia, Lithuania, Estonia

**fuel equivalent**

Natural equivalent measuring unit used to compare different types of fuel. Recalculation of certain type of fuel to fuel equivalent is made by the ratio of enthalpy of that fuel (1 kg) to enthalpy of fuel equivalent (1 kg); the latter equals to 29.3076 Mega joule

**ton**

one metric ton

**FST of Russia**

Federal Tariff Service

**Central Asia**

Kazakstan, Kyrgyzstan, Tadjikistan, Turkmenistan, Uzbekistan

**Central Europe**

Bulgaria, Bosnia-Herzegovina, Hungary, Makedonia, Poland, Rumania, Serbia, Montenegro, Slovakia, Slovenia, Croatia, Czechia



## ADDRESSES AND CONTRACTS

**Full name:** Open Joint Stock Company Gazprom

**Abbreviated name:** OAO Gazprom

**Location:** 16, Nametkina str. Moscow, Russian Federation

**Mailing address:** 16, Nametkina str. Moscow, GSP-7, 117997

Phone: (495) 719-30-01 (information). Fax: (495) 719-83-33

**Web-site:** [www.gazprom.ru](http://www.gazprom.ru) in the Russian language, [www.gazprom.com](http://www.gazprom.com) in the English language

**E-mail:** [gazprom@gazprom.ru](mailto:gazprom@gazprom.ru)

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

**Taxpayer's identification number (INN):** 7736050003

**Department for Relations with Shareholders:** Elena Pavlovna Lobacheva

Phone: (495) 719-27-86, 719-26-01. Fax: (495) 719-39-37.

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**Department for Relations with Investors:** Mikhail Yurievich Baryshnikov

Phone: (495) 719-44-48. Fax: (495) 719-35-41

E-mail: [M.Baryshnikov@adm.gazprom.ru](mailto:M.Baryshnikov@adm.gazprom.ru).

**Auditor of OAO Gazprom:** ZAO PricewaterhouseCoopers Audit

**Audit license:** № E000376 issued by the Ministry of Finance of the Russian Federation on 20 May, 2002.

**Location and mailing address:** bld.5, 52 Kosmodamianskaya emb., Moscow 115054 Russian Federation

Phone: (495) 967-60-00. Fax: (495) 967-60-01

**Registrar:** Close Joint Stock Company Specialized Registrar – Holder of the register of gas industry (ZAO SR-DRAG)

**Location and mailing address:** 71/32, Novocheryumushkinskaya str., Moscow 117420 Russian Federation

Phone: (495) 719-39-29. Fax: (495) 719-45-85

**Depository bank (ADR of OAO Gazprom):** The Bank of New York Mellon

Phone (the US only): 1-888-BNY-ADRS (1-888-269-2377)

Phone (other countries): 201-680-6825

E-mail: [shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com)

Web site: [www.bnymellon.com/shareowner](http://www.bnymellon.com/shareowner)