MANAGEMENT REPORT
OAO GAZPROM
2014

CONTENT

Note:

In the present Management Report some of operating and economic parameters have been determined in accordance with International Financial Reporting Standards (IFRS) principles and for the Group's entities included in the IFRS consolidated financial statements of OAO Gazprom for the year ended December 31, 2014, therefore they can differ from similar parameters in reports of OAO Gazprom prepared under Russian statutory requirements.

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

Analysis of financial results should be read in conjunction with the audited consolidated financial statements of OAO Gazprom for the year ended December, 31, 2014 prepared in accordance with IFRS.

Among other things, the Management Report discloses information on the future production and economic activities of the Gazprom Group, based on the management's forecasts and estimates considering the current situation. Actual performance results may differ from the forecasts and estimates due to the impact of various objective factors.

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

THE GROUP'S POSITION IN THE GLOBAL ENERGY INDUSTRY

Gazprom is the global leader in terms of reserves (approximately 17%) and natural gas production volumes (approximately 12%). In Russia, Gazprom accounts for 69% of gas production and approximately for 11% of oil and gas condensate production (including the share in the production of entities where Gazprom has investments classified as joint operations).

The Group owns the world's largest gas transportation network, which is located in Russia and extends for 170,700 kilometres. This network ensures distribution of natural gas to customers within Russia as well as access to European markets for natural gas.

In Russia, Gazprom accounts for a half of all natural and associated petroleum gas processing and 19 % of oil and stable gas condensate refining.

Gazprom is the dominant supplier of gas to consumers in Russia and countries of the former Soviet Union (FSU). In addition, the Group is Europe's major supplier of natural gas (accounting for 30.2% of European gas consumption, including Turkey).

The Group also owns electricity generating assets, which provide approximately 15% of all the electrical power generated in Russia. Gazprom became the largest heat producer in Russia when it acquired OAO MIPC in 2013.

The Gazprom Group's key operational and financial indicators for 2014 and 2013 are presented in the tables below.

	As of and for the year ended December 31,		Change, %
	2014	2013	
Reserves of hydrocarbons under PRMS Standards[(1)]			
Proved and probable gas reserves, bcm	23,510.74	23,264.53	1.1
Proved and probable gas condensate reserves, million tons	848.61	832.38	2.0
Proved and probable crude oil reserves, million tons	1,374.38	1,407.20	-2.3
Total proved and probable reserves of hydrocarbons, bboe	155.6	154.2	0.9
Operating indicators			
Natural and associated petroleum gas production[(1)], bcm	444.9	488.4	-8.9
Crude oil production[(1)], million tons	43.5	42.3	2.8
Unstable gas condensate production[(1)], million tons	14.5	14.7	-1.4
Total hydrocarbon production[(1)], million boe	3,057.9	3,307.3	-7.5
Natural and associated petroleum gas refining, bcm	30.5	31.5	-3.2
Oil and stable gas condensate refining, million tons	68.1	66.1	3.0
Electricity generation, billion kilowatt-hour (kWh)	155.4	162.5	-4.4
Key financial results (RUB million)			
Sales	5,589,811	5,249,965	6.5
Operating profit	1,310,424	1,587,209	–17.4
Profit for the year attributable to owners of OAO Gazprom	159,004	1,139,261	–86.0
Adjusted EBITDA	1,962,558	2,009,475	–2.3
Balance Sheet highlights (RUB million)			
Cash and cash equivalents	1,038,191	689,130	50.7
Total debt	2,688,824	1,801,928	49.2
Net debt	1,650,633	1,112,798	48.3
Total assets	15,177,470	13,436,236	13.0
Equity, including non-controlling interest	10,120,021	9,634,354	5.0

	As of and for the year ended December 31, 2014	2013	Change, %
Ratios			
Net earnings per share for profit attributable to the owners of OAO Gazprom, RUB	6.93	49.64	–86.0
Total debt to equity, including non-controlling interest	0.27	0.19	42.1
Adjusted EBITDA to interest expense	43.86	46.99	6.7
Return on capital employed, %	1.2	11.0	–89.0

Note:

(1) Including the Group's share in the reserves and production of entities where Gazprom has investments classified as joint operations.

OPERATING RESULTS

Reserves and development of hydrocarbons

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

	As of December 31, 2014	2013
Gas production		
Assets, RUB million	2,276,369	2,051,204
Share in the total assets of the Group, %	15.3	15.6
Oil and gas condensate production		
Assets, RUB million	1,896,609	1,585,429
Share in the total assets of the Group, %	12.8	12.1

	Year ended December 31, 2014	2013
Gas production		
Capital additions, RUB million	254, 881	257,407
Share in capital additions of the Group, %	20.9	21.2
Oil and gas condensate production		
Capital additions, RUB million	227,421	223,557
Share in the total assets of the Group, %	18.6	18.4

Reserves

According to the audit of the Gazprom Group's hydrocarbon reserves under PRMS Standards performed by DeGolyer and MacNaughton, as of December 31, 2014 proved and probable reserves of the Group's hydrocarbons (including the share in the reserves of entities where Gazprom has investments classified as joint operations) are 155.6 bboe. Present value of the hydrocarbon reserves is assessed at USD 316.3 billion (as of December 31, 2013 – USD 305.0 billion). The valuation covered 94% of natural gas, 92% of gas condensate and 91% of crude oil reserves of the Gazprom Group under the ABC1 classification.

The following table shows proved and probable reserves of the Gazprom Group (including the share in the reserves of entities where Gazprom has investments classified as joint operations) under PRMS Standards:

		As of December 31, 2014	As of December 31, 2013
Gas			
Share of ABC_1 reserves covered by the assessment under PRMS Standards[(1)], %		94	93
Proved			
	bcm	18,894.76	18,939.34
	tcf	667.3	668.9
Probable			
	bcm	4,615.98	4,325.19
	tcf	163.0	152.7
Proved and probable			
	bcm	23,510.74	23,264.53
	tcf	830.3	821.6
Gas condensate			
Share of ABC_1 reserves covered by the assessment under PRMS Standards[(1)], %		92	89
Proved			
	million tons	642.28	638.77
	billion barrels	5.3	5.2
Probable			
	million tons	206.33	193.62
	billion barrels	1.7	1.6
Proved and probable			
	million tons	848.61	832.38
	billion barrels	7.0	6.8
Oil			
Share of ABC_1 reserves covered by the assessment under PRMS Standards[(1)], %		91	89
Proved			
	million tons	830.49	834.80
	billion barrels	6.1	6.1
Probable			
	million tons	543.89	572.40
	billion barrels	4.0	4.2
Proved and probable			
	million tons	1,374.38	1,407.20
	billion barrels	10.1	10.3
Total			
Share of ABC_1 reserves covered by the assessment under PRMS Standards[(1)], %		94	93
Proved			
	billion tons of fuel equivalent	23.9	23.9
	bboe	122.7	122.9
Probable			
	billion tons of fuel equivalent	6.4	6.1
	bboe	32.9	31.3
Proved and probable			
	billion tons of fuel equivalent	30.3	30.0
	bboe	155.6	154.2

Note:

(1) The ABC_1 classification accepted in Russia is based on the geological data analysis and evaluates the actual hydrocarbon reserves in geological formations. PRMS Standards take into account not only the probability of hydrocarbon presence in geological formations but also the economic feasibility of reserves extraction, which is determined based on exploration and drilling costs, operating expenses for production and transportation, taxes, current selling prices of hydrocarbon and other factors.

As compared to the assessment made as of December 31, 2013, proved and probable reserves of Gazprom grew by 1.4 bboe. The increase in PRMS reserves is attributable to the inclusion of assessed reserves at the Khandinsky block of the Kovyktinskoye field and the results of exploration at the Chayandinskoye and Semakovskoye fields, as well as the results of the

Gazprom Neft Group's exploration operations in Eastern Siberia (i.e. at the Ignyalinsky, Tympuchikansky and Vakunaysky license blocks).

As of December 31, 2014, the Group (including the share in the reserves of entities where Gazprom has investments classified as joint operations) had licenses for ABC_1 hydrocarbon reserves development in the following volumes: 36,101.4 bcm of natural gas, 1,447.0 million tons of gas condensate and 2,053.1 million tons of crude oil, for a total of 239.5 bboe. The Group's share in the ABC_1 hydrocarbon reserves of associated companies was 971.7 bcm of gas, 97.0 million tons of gas condensate and 575.4 million tons of crude oil, or 10.7 bboe.

The following table presents changes to ABC_1 reserves of natural gas, gas condensate and oil (including the share in the reserves of entities where Gazprom has investments classified as joint operations) at licensed areas of the Gazprom Group in Russia in 2014:

	Natural gas, bcm	Gas condensate, million tons	Crude oil, million tons	Total million boe
Reserves as of December 31, 2013	**35,696.6**	**1,384.4**	**2,019.0**	**236,376.4**
including share of non-controlling shareholders	**588.3**	**4.2**	**66.7**	**3,988.4**
Additions to reserves as a result of exploration	822.5	114.2	24.7	5,960.3
Transfer of reserves discovered in 2014 to the Undistributed Subsoil Fund of Russia [(1)], acquisition from other companies	(91.1)	(6.9)	2.3	(576.1)
Licenses obtaining	182.3	2.8	5.8	1,138.5
Return of licenses	-	-	(0.1)	(0,9)
Acquisition of assets	-	-	-	-
Disposal of assets	-	-	-	-
Revaluation	(66.0)	(37.0)	44.7	(363.6)
Production (including losses)	(442.9)[(2)]	(10.5)[(3)]	(43.3)	(3,011.8)
Reserves as of December 31, 2014	**36,101.4**	**1,447.0**	**2,053.1**	**239,522.8**
including share of non-controlling shareholders	**571.3**	**4.2**	**65.2**	**3,877.2**

Notes:

(1) Under the Russian Federation laws, the subsoil user does not have any vested right to develop reserves discovered in areas covered by exploration licenses or beyond the licensed areas. Such reserves shall be transferred to the Undistributed Subsoil Fund of the Russian Federation. Subsequently the subsoil user has a preference right to receive a license for their development.

(2) Except for dissolved gas.

(3) Any changes in gas condensate reserves due to production are recognized as converted into stable gas condensate (C_{5+}). In 2014, the Gazprom Group produced 14.5 million tons of unstable gas condensate.

Exploration

The following table presents summary information on exploration work at licensed areas of the Gazprom Group in Russia and those under the foreign projects with the Group's participation:

	Year ended December 31, 2014	
	in Russia	abroad[(2)]
Total financing for exploration[(1)], RUB billion	83.7	5.4
Exploration drilling, thousand meters	165.4	17.6
Completed exploration wells, units	41	5
including successful wells	31	4
Seismic exploration 2D, thousand line km	6.6	-
Seismic exploration 3D, thousand km^2	12.6	1.7

Notes:

(1) Including VAT.

(2) The consolidated data about exploration work carried out by the Gazprom Group in foreign countries include the data on projects where the Group's subsidiaries perform operational functions.

In addition, in entities where Gazprom has investments classified as joint operations wells development drilling totalled 13.1 thousand m, 4 exploration wells have been completed, including 3 wells which yielded an influx.

In 2014, exploration work in Russia resulted in an increase in reserves by 822.5 bcm of natural gas and 138.9 million tons of gas condensate and crude oil. The increase in gas reserves was mainly attributable to the Astrakhanskoye field (600.6 bcm), the Yuzhno-Kirinskoye field in the Sea of Okhotsk offshore zone (115.2 bcm), and the Semakovskoye field in the Taz River Estuary offshore zone (47.9 bcm). The increase in gas condensate reserves was mainly attributable to the Astrakhanskoye and Yuzhno-Kirinskoye fields.

In the reporting year, the East-Imbinskoye gas field and 30 gas deposits were opened in the Krasnoyarsk Territory. The largest gas deposit was opened in the Jurassic sediments of the Pestsovoye field.

The recovery ratio for natural gas reserves amounted to 1.9, while for gas condensate it was 10.9 and for oil it was 0.6.

The Group's subsidiaries are involved in exploration projects internationally, in which they perform operational functions. The exploratory drilling was carried out in Algeria and Serbia, while some 3D seismic exploration work was conducted in Serbia.

The drilling of the RSHN-1 exploratory well, at a depth of 4,120 m, resulted in the opening of the Rhourde Sayah Nord oil field (RSHN) in Algeria.

Licensing

As of December 31, 2014, the Gazprom Group held 354 subsoil licenses for conducting geological surveys, prospecting, exploration and production of hydrocarbons in the Russian Federation. The licensed subsoil area covered 546.3 thousand sq. km, including 331.7 thousand sq. km of offshore sites. In addition, entities where Gazprom has investments classified as joint operations held 35 licenses with the licensed subsoil area of 2.7 thousand sq. km.

The Gazprom Group obtained 13 subsoil licenses in 2014, including three licenses issued by decrees of the Russian Federation Government for hydrocarbon surveys, exploration and production at the federal-level Khandinsky plot, which includes part of the Kovyktinsky field (Khandinsky block) in the Irkutsk Region; and for geological surveying and hydrocarbon exploration and production at the federal-level Kheisovsky and North-West subsoil plots in the Barents Sea offshore zone.

In 2014, the licensing activities resulted in a growth of ABC_1 natural gas reserves amounting to 182.3 bcm.

The overall one-time payment for all licenses obtained in 2014 was RUB 18.4 billion.

The user of mineral resources decided to surrender its license for the Urumako-1 block (Venezuela) due to the inadvisability of conducting further work.

Transactions with assets that changed reserves and production capacities of subsidiaries and associated companies

In March 2014, OOO Yamal Razvitie, an associate of the Group (in which Gazprom holds a share of 50%), finalized the acquisition from OAO Novatek of a 20% interest in Arctic Russia B.V., which in turn owns a 49% interest in OOO SeverEnergia. As a result of this transaction, the Gazprom Neft Group's share in OOO SeverEnergia (subsidiaries of which are involved in hydrocarbon exploration and production in YaNAO) has increased from 40.2% to 45.1%.

Production

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

	Natural and associated petroleum gas, bcm	Unstable gas condensate, million tons	Crude oil, million tons	Total million boe
Year ended December 31, 2014				
Production of the Gazprom Group, including the share in the pr3`4oduction of entities where Gazprom has investments classified as joint operations	444.9	14.5	43.5	3,057.9
Share of the Gazprom Group in the production of associated companies	18.2	2.3	10.0	199.3
Year ended December 31, 2013				
Production of the Gazprom Group, including the share in the production of entities where Gazprom has investments classified as joint operations	488.4	14.7	42.3	3,307.3
Share of the Gazprom Group in the production of associated companies	13.0	1.3	10.2	162.0

In 2014, the Gazprom Group produced 444.9 bcm of natural and associated petroleum gas in Russia which is 43.5 bcm, or 8.9%, less than in 2013. This volume includes the share in the production of entities where Gazprom has investments classified as joint operations. The decrease in gas production was attributable primarily to Ukraine’s cessation of gas offtake in the second quarter of 2014 as well as to shortfalls in gas offtake by both Russian and foreign customers.

Despite decreased annual volumes of gas production, the Gazprom Group's production potential given peak demand during the fall-winter 2014/2015 heating season was able to ensure an average gas production volume of 1,690 mmcm per day.

The Bovanenkovskoye field, which has been in development since 2012, accounts for a major part of the gas production growth. In the reporting year, the field produced 42.8 bcm of gas (in 2013 – 22.8 bcm).

Oil production, including the share in the production of entities where Gazprom has investments classified as joint operations, was 43.5 million tons, which is 1.2 million tons more than in 2013. The higher level of production was attributable to the increased oil production potential of the Gazprom Neft Group in the Priobskoye field and fields in the Orenburg Region.

In 2014, gas condensate production was 14.5 million tons, which is 0.2 million tons less than in 2013.

Production of gas by associated companies also increased. The Gazprom Group's share in gas production within Russia was 18.2 bcm of natural and associated gas (an increase of 5.2 bcm as compared to 2013). The Group's share in the liquid hydrocarbon production of the associated companies was 2.3 million tons of gas condensate (an increase of 1.0 million tons as compared to 2013), 10.0 million tons of oil (a decrease of 0.2 million as compared to 2013). The change was attributable to increased production of gas and gas condensate at the Samburgsky licensed area of OAO Arctic Gas controlled by OOO SeverEnergia, as well as to decreased production of oil by other associates of the Gazprom Neft Group.

The Gazprom Group also participated in a number of oil and gas projects abroad under which production has been commenced:

- blocks 05-2 and 05-3 in the South China Sea, on the shelf of Vietnam: total production amounted to 1,786.2 mmcm of gas and 366.4 thousand tons of condensate (which is 5.8 and 6.2 times more than in 2013 respectively);
- the Wingate field in the North Sea shelf (United Kingdom): total production amounted to 622.4 bcm of gas and 4.4 thousand tons of condensate (158% and 210% of the 2013 level, respectively);
- the Shakhpakhty field in Uzbekistan: total production amounted to 334 mmcm of gas (105% to the level of 2013).

In Libya, under oil concessions C96 and C97, Wintershall AG produced 0.4 million tons of oil (in 2013 – 2.4 million tons of oil and 254.0 mmcm of gas). The decline in production is explained by the force majeure event that was announced by Wintershall AG in August 2013.

The Serbian subsidiary, Naftna Industria Srbie A.D., produced 1.2 million tons of oil and gas condensate, and 0.6 bcm of gas.

Oil production has started at the Badra field in Iraq. In 2014, 309.5 thousand tons of crude oil was produced, and commercial shipments of oil have begun.

In 2014, total oil production in block Hunin-6 (Venezuela) amounted to 262 thousand tons. Work is continuing on a project to upgrade basic engineering infrastructure (facilities to improve the quality of oil produced). In the Russian part of the project, which is operated by OOO National Oil Consortium, the ownership interest of OAO NK Rosneft increased to 80% with OAO Gazprom Neft holding the same interest – 20%).

The following table presents information on the number of Gazprom Group's developing fields and production wells stock:

	As of December 31, 2014	
	in Russia	**abroad**
Developing fields	139	47
Gas production wells	7,816	235
including active	7,293	96
Oil production wells	8,218	904
including active	7,604	623

In addition, as of December 31, 2014, entities where Gazprom has investments classified as joint operations developed 33 fields in Russia; their production well stock included 8 gas production wells and 3,635 oil production wells (including 3,086 active wells).

Main areas of investments

In 2014, capital investments in the Gas Production segment amounted to RUB 254,881 million. Capital investments in the Crude Oil and Gas Condensate Production segment in 2014 amounted to RUB 227,421 million .

Main capital investments in gas production in 2014 were allocated to developing the infrastructure of Cenomanian-Aptian deposits at the Bovanenkovskoye oil and gas condensate field as well as the implementation of the Comprehensive Program for Upgrading and Technical Re-equipment of Gas Production Facilities.

The Gazprom Group's capital investments in exploration and production of oil and gas condensate were mainly used for developing the Novoportovskoye, Prirazlomnoye and Priobskoye fields, as well as the Gazprom Neft Group’s fields in Orenburg region and fields in Iraq. Long-term investments in exploration and production of oil and gas condensate were

related to increasing the interest in OOO SeverEnergia and developing fields of the Messoyakhsky group.

In 2014, the following facilities were put into operation:

- UKGP-1 with the annual capacity of 30.0 bcm at the Bovanenkovskoye oil and gas condensate field;
- three boosting compressor stations with the total capacity of 219 MW at the Bovanenkovskoye oil and gas condensate field (125 MW), the Vyngaykhinskoye gas field (64 MW) and Urengoyskoye oil and gas condensate field (30 MW);
- 127 new production gas wells (including 95 wells at the Bovanenkovskoye field) and 828 new oil production wells. Production drilling for gas totalled 125.6 thousand m and for oil – 2.9 million m.

In addition, entities where Gazprom has investments classified as joint operations carried out production drilling for oil of 0.7 million metres.

Sale of oil and gas condensate

In 2014, the Gazprom Group sold 15.7 million tons of oil and stable gas condensate in total.

Volumes of oil and stable gas condensate sold by the Gazprom Group in domestic and foreign markets were as follows:

(million tons)	Year ended December 31		Change,
	2014[(1)]	2013 [(1)]	%
Russia	4.7	2.6	80.8
including: Gazprom Neft Group	3.4	0.8	
FSU	1.2	4.2	-71.4
including: Gazprom Neft Group	1.2	4.1	
Europe and other countries	9.8	9.2	6.5
including: Gazprom Neft Group	8.6	8.3	
Total	**15.7**	**16.0**	**-1.9**

Note:

(1) The volumes of sold oil and gas condensate do not include intra-group sales.

The decrease in sales of liquid hydrocarbon to the FSU was attributable to the cessation of oil sales by the Gazprom Neft Group to Kazakhstan. The volumes thus made available were sold in the domestic market and also were supplied for refining to the Group's refineries in Russia and exported to Europe and other countries. The increase in sales of liquid hydrocarbon in the domestic market, to Europe and other countries was also due to the growth of oil production in Russia.

In 2014, about 95% of OAO Gazprom's stable gas condensate was sold in the domestic market to the Group's entities (primarily to OAO Gazprom Neftekhim Salavat).

Oil prices

Operations of the Group are affected by the prevailing price of crude oil, both in domestic and international oil markets. In 2014, according to the PIRA agency the prices for Urals crude oil (average quotes of URALS Mediterranean and URALS Rotterdam) fluctuated in the range of 53.4 - 112.4 USD/barrel and decreased by 51 % to 53.4 USD/barrel at the year end.

Oil grade	January	February	March	April	May	June
			USD /barrel			
BRENT[(1)]	108.3	108.9	107.5	107.6	109.6	111.7
URALS[(2)]	105.9	107.1	106.6	106.5	107.6	108.9
Spread URALS to BRENT	2.3	1.7	1.0	1.2	2.0	2.7

Oil grade	July	August	September	October	November	December
			USD /barrel			
BRENT(1)	106.6	101.6	97.3	87.4	78.9	62.6
URALS(2)	105.7	101.4	96.0	86.4	70.0	61.2
Spread URALS to BRENT	0.9	0.2	1.3	1.0	8.8	1.4

Notes:

(1) Based on daily average of Brent quotes, calculated as an average between daily maximum and minimum quotes.

(2) Based on daily average quotes of Urals Mediterranean and Urals Rotterdam, calculated as an average between daily maximum and minimum quotes.

In 2014, the rouble spot prices of oil in the Russian market exceeded the 2013 average level by about 9% (according to the Argus data). In 2014, the prices changed in the range RUB 12,200 to RUB 14,900 per ton (VAT inclusive) (FOB-Nizhnevartovsk pipeline) and attained a minimum in November, having decreased by 18% of the annual maximum values. Even as they are clearly impacted by fluctuations in global energy prices, domestic Russian prices for oil and stable gas condensate are largely determined by internal, country-specific factors, such as the supply-and-demand balance at a given period of time, repairs at refineries, price trends in markets for refined products, and the exchange rate of the Russian rouble, which depreciated significantly against the US dollar in 2014.

Reporting year events

In April 2014, the Group made its first shipment of oil produced at the Prirazlomnoye field, which is currently Russia’s only project for developing hydrocarbon resources in the Arctic shelf. A new grade of oil named ARCO (Arctic Oil) has come onto the market.

In May 2014, the first oil was produced at the Chayandiskoye field in Yakutia: the oil rim of the Botuobinsky deposit was put into operation.

In the latter half of 2014, commercial production and shipment of oil began at the Badra field in Iraq. This represents the Group’s first major foreign greenfield project in the Production segment. The Group obtained unique experience that it will use in future to develop other new fields both in Russia and abroad.

In October 2014, commercial production began at the Kirinskoye gas condensate field, with the first gas shipped via the Sakhalin-Khabarovsk-Vladivostok trunk pipeline to supply gas to Russian consumers as well as ensure stable availability of gas condensate in the oil and gas condensate pipeline owned by Sakhalin Energy Investment Company Ltd.

In December 2014, one more gas-producing unit was put into operation at the Bovanenkovo field, which serves as the source base for a major gas production centre on the Yamal Peninsula. The pilot unit includes a comprehensive gas treatment plant with a designed capacity of 30 bcm per year, as well as a boosting compressor station with a capacity of 125 MW, and 95 wells. Thus, the gas production potential at this field has increased by 1.5 times, up to 90.0 bcm per year.

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

The Gazprom Group's goals in the area of gas production include not only maintenance of production at existing fields but active development of new gas production centres on the Yamal Peninsula, as well as in offshore zones in the northern seas, Eastern Siberia and the Russian Far East.

Gazprom's critical business objectives include maintenance of the designed capacity at existing fields, commencement of new fields in the Nadym-Pur-Tazovsky region, and development of large and unique fields on the Yamal Peninsula and in offshore zones in the northern seas so as to have the ability to maintain and increase hydrocarbon production levels.

In the long-term perspective, strategic gas production regions include the Yamal Peninsula (Cenomanian-Aptian deposits at the Kharasaveyskoye field, and Neocomian-Jurassic deposits at the Bovanenkovskoye, Kharasaveyskoye and Kruzenshternskoye fields), and the offshore zones in Russian northern seas (fields at the Ob Bay and Taz River Estuary, primarily the North Kamennomysskoye and Kamennomysskoye seas, and the Shtockman field in the Barents Sea offshore zone).

Eastern Russia is rich in resources that can serve as the basis for building up major new oil and gas production centres that can meet the energy needs of Russia’s eastern regions as well as provide export supplies to Asia-Pacific countries, primarily China, in the long-term perspective.

In 2014, OAO Gazprom drafted and approved a set of comprehensive action plans for the creation of gas production, gas transportation and gas processing capacities that will use gas produced at fields in the Yakutsk and Irkutsk gas production centres. The source field for the Yakutsk gas production centre, the Chayandinskoye field (with commercial gas reserves of 1.44 tcm), will be put into service in stages, presumably between the second and fourth quarters of 2018. The source field for the Irkutsk gas production centre is the Kovyktinskoye gas condensate field (with commercial gas reserves of 2.54 tcm).

The development priority for the Sakhalin gas production centre is the Sakhalin-3 project. In the reporting year, commercial development began at the Kirinskoye gas condensate field; the South Kirinskoye oil and gas condensate field is among Gazprom's long-term priority projects in the area of gas production. Gas from the Sakhalin-3 project is the main resource for the Sakhalin–Khabarovsk–Vladivostok gas transportation network, which can ensure gas supply to customers in the Russian Far East as well as implementation of the Vladivostok LNG project.

Oil business development strategy provides for increasing the annual hydrocarbon production up to 100 million tons of oil equivalent by 2020 and retaining that level until 2025. To reach this goal the Group plans to enhance efficiency of extracting the remaining reserves at its active production sites by applying new production technologies and optimizing development processes while reducing the cost of currently employed production technologies and implementing new technologies on a mass scale basis. Plans also call for establishing a new production centre in the northern part of the Yamal-Nenets Autonomous Territory (YaNAO) and expanding presence in the Arctic shelf.

The Gazprom Neft Group has been looking at unconventional methods of hydrocarbon production as another potential source for production growth and will work to develop such assets as an important element of its portfolio. Given the overall impairment in the quality of conventional sources for oil production and the need to utilize oil deposits with low filtration characteristics, the Gazprom Neft Group has begun assessing the commercial potential for developing shale oil resources in the Bazhenov formation in Western Siberia.

The development of the Gazprom Group’s resource base internationally is aimed at expanding the Group’s global presence and enhancing its role as a global energy leader, as well as diversifying its supply sources and transport options, sales markets, and products and services; and reducing the dependence of supply volumes on available demand in the Group’s traditional markets by entering new markets, including in adjacent business segments such as natural gas motor fuel and electrical power. Another important goal in the area of hydrocarbon exploration outside of Russia is to acquire the relevant experience necessary to enhance the Group’s

technological and managerial competencies so as to promote greater efficiency in projects being implemented in Russia, including on the continental shelf.

Transportation of gas

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

	As of December 31,	
	2014	**2013**
Assets, RUB million	6,088,335	5,271,761
Share in total assets of the Group, %	41.0	40.1

	Year ended December 31,	
	2014	**2013**
Capital additions, RUB million	434,433	380,547
Share in the Group's total capital additions, %	35.6	31.4

Gas transportation system

Gazprom owns the largest gas transportation system (GTS) in the world. It provides a high level of reliability and ensures continuous, uninterrupted gas supplies.

As of year-end 2014, OAO Gazprom and its gas transportation subsidiaries in Russia owned trunk pipelines and branch pipes with a total length of 170,700 km. The GTS includes 250 compressor stations with a total capacity of 46.1 thousand MW. In addition, gas is transferred to gas compressor units via the gas pipelines of gas producers, refinery subsidiaries and underground storage entities, with a total length of 4,500 km.

The table below shows data on the Gazprom Group's gas trunk pipelines in Russia by age:

	As of December 31, 2014	
Age of trunk pipelines	**Length, ths km,**	**Share, %**
Up to 10 years	20.6	12.0
11 – 20	20.7	12.1
21 – 30	50.6	29.7
31 – 40	46.6	27.3
41 – 50	20.6	12.1
Over 50	11.6	6.8
Total	**170.7**	**100.0**

To ensure greater reliability of gas supplies, technical and environmental safety, and efficient gas transportation, every year Gazprom carries out capital repairs and scheduled preventive maintenance of the GTS. Reconstruction and capital repairs are performed on these assets by ranking them in order of priority in accordance with forecast workflows; this helps to promote cost savings and flexibility in planning.

The volume of gas pumped into Gazprom's GTS within Russia in 2014 totalled 627.5 bcm (in 2013 – 659.4 bcm). The GTS and UGSF used 33.2 bcm of natural gas for their own technical needs in 2014 (in 2013 – 40.6 bcm). The Group assesses the level of gas losses as low and the level of gas consumed as fuel to be satisfactory.

Gazprom provides independent companies with access to its gas transportation system. In 2014, Gazprom provided 24 companies that are not part of the Group with gas transportation services via the GTS within Russia. Gas transportation volumes amounted to 121.1 bcm (an increase of 8.7% as compared to 2013).

The Group's key foreign gas transportation asset is OAO Gazprom Transgaz Belarus, which supplies gas to customers in Belarus and transits gas to Europe and Russia's Kaliningrad Region. In 2014, 65 bcm of natural gas was pumped into the 7,900 km-long GTS operated by OAO Gazprom Transgaz Belarus, including 45 bcm of gas transiting through Belarus.

ZAO Gazprom Armenia, a subsidiary of the Group, owns the gas transportation system in Armenia, which comprises 1,700 km of trunk gas pipelines. In 2014, 2 bcm of natural gas was pumped into the GTS in Armenia.

In 2014, about 35.7% of the total gas transit to Europe was handled by the marine cross-border pipeline systems created in partnership with the Group: Blue Stream and Nord Stream. In 2014, 36.5 bcm of gas (in 2013 – 23.8 bcm) was transported through the Nord Stream pipeline. Gas sold from the Blue Stream pipeline in 2014 amounted to 14.4 bcm (in 2013 – 13.7 bcm).

Main areas of investments

In 2014, capital investments in the Gas Transportation segment amounted to RUB 434,433 million.

Capital investments were allocated primarily toward building the Bovanenkovo-Ukhta trunk gas pipeline system and implementing the project "Expansion of the Unified Gas Supply System to Ensure Gas Supplies for the South Stream Gas Pipeline".

In 2014, the following assets were put into operation in Russia:

- 1,276.9 km of gas trunk pipelines and branch pipes;
- four compressor stations with a total capacity of 416 MW (including two compressor stations with a total capacity of 256 MW at the Bovanenkovo-Ukhta trunk pipeline).

Reporting year events

In January 2014, OAO Gazprom increased its interest in ZAO ArmRosgazprom (ZAO Gazprom Armenia since February 2014) up to 100%.

In July 2014, OAO Gazprom acquired a 100% interest in OsOO KyrgyzgazProm, Kyrgyzstan's exclusive importer of natural gas and owner of the Central Asian country's gas transport and distribution networks.

In September 2014, the first joint was welded in the Power of Siberia trunk gas pipeline. The pipeline will be the key component of the gas transportation system currently being created in eastern Russia. This system will carry gas from the Irkutsk and Yakutia gas production centres to customers in the Russian Far East and China.

In December 2014, work on the South Stream project essentially ceased in the Republic of Bulgaria when BEH EAD, a Bulgarian company authorized by the Bulgarian Government to work with OAO Gazprom on the project implementation, took a number of actions aimed at halting the project and, moreover, failed to perform a number of corporate procedures required for formalizing decisions on further implementation of the project. Thus, Gazprom was effectively compelled to terminate the South Stream project given the negative impact of a number of external factors, such as:

- pressure exerted by the European Commission on the Bulgarian Government and the governments of other countries participating in the project aimed at preventing South Stream-related construction activity;

- contradictions between the provisions of the EU's Third Energy Package and previously concluded bilateral agreements between the Russian Federation Government and the governments of those countries participating in the project;
- the Bulgarian Government's decision to terminate all activity in both offshore and onshore project sections within Bulgaria, which disrupted and caused delays in mandated work completion deadlines not only in the Bulgarian section of the pipeline but throughout the entire project.

In December 2014, OAO Gazprom and the Turkish company Botas signed a Memorandum of Understanding in Ankara regarding a project to build a new trans-Black Sea gas pipeline from Russia to Turkey. This project is an alternative to the now cancelled South Stream project. The new offshore pipeline's four branches will have an annual carrying capacity of 63 bcm, out of which no less than 47 bcm will be routed to the Turkish-Greek border and the remaining volume will be sold to Turkish customers.

In December 2014 Gazprom bought out all non-controlling interest to become the 100% owner of South Stream Transport B.V., the entity that had been implementing the offshore part of the project.

Development plans for the Gas Transportation segment

In the gas transport segment, the Unified Gas Supply System of Russia (UGSS) will be further developed and modernised simultaneously with efforts to increase production. Plans call for making maximum use of existing infrastructure to ensure the efficiency of deliveries. Initiatives will continue in eastern Russia to further develop the gas transport system.

Gazprom is building new, and reconstructing and upgrading existing, gas transportation facilities to ensure domestic supplies of gas and meet its contractual export obligations.

Gazprom continues to build the Bovanenkovo-Ukhta and Ukhta-Torzhok trunk pipelines to transport gas from the Yamal Peninsula.

Recently, Gazprom has been working to diversify its routes for exporting Russian gas to Europe. In 2014, previously agreed plans were adjusted under the impact of external factors: in December 2014, Gazprom had to terminate the South Stream project.

The construction of a new offshore pipeline in the Black Sea – the Turkish Stream – will ensure the supply of Russian gas in a volume corresponding to the design capacity of the South Stream pipeline, while ensuring full load utilization for gas transport facilities that are being built in Russia as part of the South Stream project. The following projects aimed at ensuring an appropriate volume of gas supplies for the Turkish Stream pipeline are currently carrying out: Expansion of the Unified Gas Supply System to Ensure Gas Supplies for the South Stream Gas Pipeline; and Reconstruction of the Petrovsk-Pisarevka Section of the Urengoy-Novopskov Pipeline.

Currently, Gazprom is considering the possibility of increasing the capacity of the Blue Stream gas pipeline.

Current plans call for the staged construction of the Power of Siberia trunk pipeline to ensure gas supplies via the Eastern route to PRC under the bilateral contract signed in May 2014, as well as to Russian customers.

Altogether, 30 bcm of gas from the West Siberian fields are to be delivered to the PRC under the framework agreement signed between OAO Gazprom and China National Petroleum Corporation (CNPC) in November 2014, via the Western route, i.e. the new 2,600-km Altai gas pipeline.

Adjustments have been approved in the design documentation for the Sakhalin-Khabarovsk-Vladivostok gas trunk pipeline construction project with the goal of potentially expanding the gas pipeline's capacity to deliver gas supplies from the Sakhalin gas production centre to Russian and foreign customers.

Underground gas storage

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

	As of December 31,	
	2014	**2013**
Assets, RUB million	280,762	242,198
Share in total assets of the Group, %	1.9	1.8

	Year ended December 31,	
	2014	**2013**
Capital additions, RUB million	15,530	23,524
Share in the Group's total capital additions, %	1.3	1.9

For the Gazprom Group the underground gas storage system is the key instrument that helps to reduce maximum load, control seasonal differences in gas consumption, and ensure flexible and secure gas supplies.

In cold season the Gazprom's underground gas storage system accounts for 20% of gas supplies to Russian customers and abroad.

Underground gas storages in Russia and abroad

The Gazprom Group operates 22 UGSFs in 26 storage facilities in Russia. As of December 31, 2014, the total volume of active gas in UGSFs reached 71.1 bcm. In 2014, 32.7 bcm of gas were withdrawn from UGSF in Russia, and 35.1 bcm of gas were pumped into UGSF. The potential daily capacity increased by 42.6 mmcm as compared to 2013. By the start of the 2014-2015 withdrawal season, the volume of the operating gas reserve in Russian UGSFs increased by 3.0 bcm as compared to the previous season and amounted to 72.0 bcm.

To enhance security of export gas supplies, Gazprom uses UGSF capacities in foreign countries.

In Europe, the Gazprom Group enjoys access, as a co-investor, to active UGSF capacities in Austria (Haidach), Germany (Reden, Katarina), Serbia (Banatski Dvor), and the Netherlands (Bergermeer). In addition, the Group rents storage facilities from third parties: Vitol (UGSF in Germany and Great Britain), OMV and RAG ES (Austria), and MFGK (Hungary). In 2014, the Gazprom's gas storage capacities in Europe amounted to 5.4 bcm, daily capacity –74.6 mmcm.

In 2014, 4.6 bcm of gas were pumped into European UGSFs, and total gas withdrawal was 2.4 bcm. The increase in the volume of gas pumped into UGSFs versus 2013 was attributable to the need to fill in the Group's own UGSFs and expand storage capacities due to higher risks associated with the transit of Russian gas through Ukraine. Meanwhile, low gas withdrawal volumes were due to mild weather conditions, repair of gas transport infrastructure, and customer demand.

In FSU Gazprom's companies own three UGSF in Belarus (Pribugskoye, Osipovichskoye and Mozyrskoye) and to one in Armenia (Abovyanskaya underground gas storage station), they also use storage capacities in Latvia (Inchukalnskoye). As of December 31, 2014, gas storage

facilities in FSU, owned or used by the Group, amounted to 3.1 bcm, daily capacity– 56 mmcm. In 2014, 2.9 bcm of gas were pumped into UGSFs in FSU, total withdrawal volume was 2.5 bcm.

Main areas of investments

In 2014, capital investments in the Underground Gas Storage segment amounted to RUB 15,530 million.

The main volume of capital investment in underground gas storage in Russia was channelled into the reconstruction of a gas field at the Peschano-Umetskaya underground gas storage station, as well as a gas field and compressor facilities at the Elshanskaya underground gas storage station; the reconstruction of the Sovkhoznoye UGSF; technical upgrades at the Moscow Gas Underground Storage Division; and the expansion of active capacities and increase in daily production at the Kasimovskoye UGSF.

In 2014, the following assets were put into operation in Russia:

- a new compressor station with a capacity of 9.6 MW at the Nevskoye UGSF;
- active capacity of 0.7 bcm at the Severo-Stavropolskoye and Nevskoye UGSFs;
- connection of six production wells at the Severo-Stavropolskoye UGSF.

The main volume of capital investment in underground gas storage in the FSU was channelled into developing the Mozyrskoye and Pribugskoye UGSFs (Belarus), and building underground reservoir No. 25G at the Abovyanskaya underground gas storage station (Armenia).

In 2014, in the FSU the active capacity of 0.1 bcm and connection of three production wells at the Mozyrskoye UGSF were put into operation.

Work aimed at expanding storage capacities has continued in European countries. Gazprom continued to build the Katarina UGSF in Germany and the Damborice UGSF in the Czech Republic. In 2014, a third cavity of 50 mmcm was put into operation at the Katarina UGSF.

Reporting year events

By the start of the 2014/2015 heating season, the potential maximum daily capacity of Russian UGSFs reached a record level of 770.4 mmcm as a result of the active development of the UGSF system. The volume of the operating gas reserve in Russian UGSFs reached 72 bcm.

Development plans for the Gas Storage segment

One of Gazprom's strategy goals is technical re-equipment, reconstruction and expansion of existing storage facilities as well as development of new UGSFs. The tasks of long-term development of the underground gas storage system in Russia are set in the General Gas Industry Development Scheme up to 2030 and are aimed at increasing the daily withdrawal capacity UGSFs and operating gas reserve.

Gazprom's long-term plans provide for further developing underground gas storage in Russia and reaching the maximum daily capacity up to 1.0 bcm by 2025 that will allow decreasing expenses for commodity/transport activity by 10-15 % and cost of gas supplies to consumers by 5-10 %.

To reach this goal, plans call for:

- maintaining the current performance level of active UGSFs by reconstructing and upgrading active storage facilities;
- expanding the capacity of active UGSFs (Kanchurinskoye, Kasimovskoye, Nevskoye, Punginskoye, Stepnovskoye, Karashurskoye);

- establishing and developing gas storage facilities for peak customer demand (Volgogradskoye, Kaliningradskoye, Novomoskovskoye);
- building new UGSFs in regions with high consumption volumes: Arbuzovskoye in the Volga Federal District, Bednodemjanovskoye in the Central Federal District, and Shatrovskoye in the Urals Federal District, and exploring the options for building UGSFs in the North-Western, Siberian and Far Eastern Federal Districts.

The full-fledged development of eastern Russia's hydrocarbon resources will not be possible without finding a viable solution to the problem of long-term storage of helium. There are three main ways for creating basic storage facilities for helium concentrate: in salt caverns, in small depleted gas fields, and by putting helium concentrate back in one of the blocks (sections, layers) of a developed field. For storage of helium concentrate from the Chayandiskoye field, Gazprom has been considering the possibility of putting helium back into gas deposits at a field in the Khamakinsky horizon of the Yuzhny II and Samanchakitsky blocks.

The development of underground gas storage facilities abroad is aimed at expanding Gazprom's UGSF capacities in foreign countries and reaching the minimum active storage capacity of 5% of the annual export amount by 2030. And, priority has been given to the Group's own UGSF, i.e. foreign infrastructure units where Gazprom has an ownership interest.

Gas distribution

The following table presents information on assets and volumes of capital investment in the Gas Distribution segment:

	As of December 31,	
	2014 г	**2013**
Assets, RUB million	1,454,300	1,394,112
Share in total assets of the Group,%	9.8	10.6

	Year ended December 31,	
	2014	**2013**
Capital additions, RUB million	23,709	36,085
Share in the Group's total capital additions, %	1.9	3.0

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

(bcm)	Year ended December 31,		Change, %
	2014	**2013**	
Russia	232.4	243.3	–4.5
FSU[(1)]	48.1	59.4	–19.0
Europe and other countries[(1)]	159.4	174.3	–8.5
Total	**439.9**	**477.0**	**–7.8**

Note:

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

In 2014, gas consumption in Russia totalled 458.4 bcm which is a 1.0% decrease as compared to 2013. Gazprom is the largest supplier in domestic market. In Russia, the electric-power industry, cement industry, metallurgy and agricultural chemistry sector remain its key customers.

Gas consumption in Europe decreased by 55 bcm (or by 10.2 %) to 485.3 bcm in 2014.

In 2014, Gazprom's supplies of gas to European countries under long-term contracts totalled 146.6 bcm of gas, which was 14.9 bcm (or 9.2%) lower than in 2013.

In 2014, the volume of LNG sold by the Gazprom Group significantly increased as compared to 2013. During the year, the Gazprom Group sold 52 cargoes of LNG totalling 159.6 tn BTU , versus 24 cargoes of LNG totalling 72.1 tn BTU sold in the previous year. The increase in the Group's LNG portfolio is primarily explained by the increase in the volume of purchases from third parties. In 2014, LNG sold under the Sakhalin-2 project amounted to 53.1 tn BTU .

Domestic natural gas prices

The following table shows the average domestic natural gas prices:

	Year ended December 31,	
	2014	2013
	(including excise tax, less VAT)	
RUB per mcm	3,530.9	3,264.6
RUB per thousand cf	100.0	92.4
USD per mcm [(1)]	91.5	102.3
USD per thousand cf[(1)]	2.6	2.9

Note:

(1) Calculated based on the annual average currency exchange rate between RUB and USD.

The increase in domestic regulated prices for gas is limited by the Forecast of Social and Economic Development in the Russian Federation prepared by the Russian Ministry of Economic Development and approved by the Government of the Russian Federation in September 2014.

The table below presents weighted average changes in domestic prices in 2015-2017, annual average increase versus prior year.

	2015	2016	2017
Change in average regulated wholesale prices for all Russian consumers except for households, %	3.5	6.6	4.6
Change in average regulated wholesale prices for gas to be sold to households, %	5.8	6.6	5.0

To mitigate the risks associated with directive gas pricing, OAO Gazprom continues to work with Russian federal government agencies to improve gas pricing, including determining the justified pricing principles that allow OAO Gazprom to maintain sustainable economic terms for domestic gas supplies.

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

The following table shows the average prices of natural gas sold by the Gazprom Group to FSU, Europe and other countries:

	Year ended December 31,	
	2014	2013
	(including customs duties)	
Natural gas sales to Europe and other countries [(1)]		
USD per mcm [(2)]	349.4	380.5
USD thousand cf[(2)]	9.9	10.8
RUB per mcm	13,487.2	12,137.9
Natural gas sales to FSU[(1)]		
USD per mcm [(2)]	262.1	266.5
USD per thousand cf[(2)]	7.4	7.5
RUB per mcm	10,115.9	8,499.9

Notes:

(1) VAT is not charged on sales to Europe and FSU countries.
(2) Calculated based on annual average currency exchange rate between RUB and USD.

Under circumstances where the pricing policy on European gas markets is subject to significant change and liquid gas trading floors (hubs) are still being developed, the Gazprom Group believes that contracts with oil price indexation continue to be vital at present moment. Under current conditions, oil products in gas formula are the general deflator. Their presence prevents the gas price from significantly de-coupling from prices for other raw commodities. At the same time, the OAO Gazprom continues to enhance the efficiency of Russian gas export sales, while demonstrating flexibility in its relationships with partners.

Main areas of investments

In 2014, the volume of capital investments in the Gas Distribution segment amounted to RUB 23,709 million.

A significant portion of capital investments in the Gas Distribution segment includes the Group's investments in gasification of the Russian Federation regions. In 2014, construction was completed on 105 gasification facilities for a total length of 1,400 km in 33 regions of the Russian Federation. These facilities provide gas supplies to 236 cities and towns and 29,600 homes and apartments, as well as conversion to gas fuel in 200 boiler-houses.

Reporting year events

In May 2014, OAO Gazprom and China National Petroleum Corporation (CNPC) signed a contract for the purchase of Russian gas to be supplied via the Eastern route to PRC in a volume amounting to 38 bcm per year over a 30-year period. The contract may be renewed. The parties simultaneously signed a Technical Agreement that regulates the technical aspects of future gas supplies. The Company has begun drafting and agreeing technical appendices to the contract, which will regulate different aspects of the construction and operation of the cross-border section of the Eastern route gas pipeline from Russia to PRC.

Based on the contract for gas supplies via the Eastern route, OAO Gazprom and CNPC have also agreed to resume negotiations on the Western route. A number of negotiations have been held, resulting in the signing of a framework agreement in November 2014 spelling out the terms for natural gas supplies from Russia to PRC by the Western route amounting to 30 bcm per year.

In 2014, the Gazprom Group signed the Main Terms for Liquified Gas Supplies under the Yamal LNG Project, providing for purchases of up to 2.9 million tons (4 bcm) of LNG per year for the Group's portfolio at the transfer point in Europe over a 20-year period (the plateau period). The binding agreement was signed in January 2015.

In 2014, an agreement with Pacific Rubiales was signed under which 0.5 million tons of LNG (0.7 bcm) per year will be purchased for the Group's portfolio from the world's first floating FLNG plant in Columbia in 2016-2020. In addition, the Group was declared the winner of a tender held by Iberdrola S.A, and as a result Gazprom's portfolio will be replenished by 0.4 million tons (0.5 bcm) per year in 2015-2016.

Development plans for the Gas Distribution segment

Gazprom's goal is to retain its leading position in the global gas industry in the long-term perspective.

In the Russian market, Gazprom will work to maintain its current position in terms of gas delivery volumes, provided that the security of supplies is ensured, particularly in the autumn-

winter heating season. The Group plans to retain its share in traditional European gas markets, while increasing its market share in North-East Asia to 10-15% over the long term.

The Gazprom Group's marketing strategy provides for expanding presence in prospective gas market including Asia-Pacific Region, and increasing LNG volumes in Gazprom's export portfolio.

One of Gazprom's key projects for developing its position in the Asia-Pacific region's LNG market is the Vladivostok-LNG project, which calls for building an LNG plant in Vladivostok, Primorsky Territory, with a capacity of 10 million tons per year and the possibility of expanding capacity up to 15 million tons per year. The resource base for two phases of the plant will consist of gas from the Sakhalin production centre. The Gazprom Group intends to sell the LNG produced within the framework of this project under long-term contracts to the key markets of the Asia-Pacific region: Japan, South Korea, China, Taiwan and others.

In addition, Sakhalin Energy Investment Company Ltd., an associated company, is conducting a technical and economic feasibility study for expanding LNG production on Sakhalin Island and considering the opportunity of building a new technological line similar to the two existing lines, as well as additional LNG storage and dock facilities.

As part of its policy for developing the LNG market and diversifying export supplies of natural gas, the Group is implementing the Baltic LNG project to build an LNG plant in the Leningrad Region. Its target markets include the Atlantic region countries, including European countries that are not covered by the Russian gas pipeline network (e.g. Spain and Portugal), Latin America and India, as well as the bunker fuel market.

Refining

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

	As of December 31,	
	2014	**2013**
Assets, RUB million	1,378,295	1,121,301
Share in total assets of the Group,%	9.3	8.5

	Year ended December 31,	
	2014	**2013**
Capital additions, RUB million	135,158	113,254
Share in total capital additions of the Group,%	11.1	9.3

Processing of hydrocarbons and production of refined products

The Gazprom Group's processing capacities include gas and gas condensate processing plants of gas production and gas processing companies of OAO Gazprom, oil refining capacities of the Gazprom Neft Group, refining and petrochemical assets of Gazprom Neftekhim Salavat Group and Vostokgazprom Group.

The following table presents the established capacity of the Gazprom Group's hydrocarbon processing and refining plants in the Group's refining complex:

Refinery	Location	Established capacity as of December 31, 2014
Astrakhansky Gas Processing Plant	Russia, Astrakhan	12.0 bcm of gas 7.3 mln tons of gas condensate
Orenburgsky Gas Processing Plant	Russia, Orenburg	37.5 bcm of gas
Orenburgsky Helium Plant	Russia, Orenburg	15.0 bcm of gas
Stable Condensate Plant	Russia, Novy Urengoy	13.7 mln tons of gas condensate
Sosnogorsky Gas Processing Plant	Russia, Sosnogorsk	3.0 bcm of gas 1.25 mln tons of oil and gas condensate
Condensate Stabilisation Plant	Russia, Surgut	14.1mln tons of oil and gas condensate
Gazprom Neftekhim Salavat Group's refineries	Russia, Salavat	10.0 mln tons of oil and gas condensate
Monomer Plant and Gas and Chemical Plant of the Gazprom Neftekhim Salavat Group	Russia, Salavat	1.0 bcm of gas
Gazprom Neft Group's refineries		
Omsk Refinery	Russia, Omsk	21.6 mln tons of oil
Moscow Refinery	Russia, Moscow	12.2 mln tons of oil
Yaroslavnefteorgsintez (the Gazprom Group's access to capacity)	Russia, Yaroslavl	7.5 mln tons of oil
Mozyr Refinery	Belarus	12.0 mln tons of oil[(1)]
Novi Sad Refinery	Serbia	7.3 mln tons of oil
Pancevo Refinery	Serbia	

Note:

(1) Oil refining volume at Mozyr Refinery is based on the schedule of the Gazprom Neft Group oil deliveries approved by the Russian Ministry of Energy, and distribution of the supplied oil between the Gazprom Neft Group's own refineries and sales to Mozyr Refinery in accordance with the intergovernmental agreement between Russia and Belarus.

The following table presents the volumes of the Gazprom Group's hydrocarbon processing and refining:

	Year ended December 31,			
	2014 [(1)]		2013 [(1)]	
	Total	including abroad	Total	including abroad
Natural and petroleum associated gas, bcm	30.5	–	31.5	–
including the Gazprom Neftekhim Salavat Group	0.5	–	0.4	–
Crude oil and unstable gas condensate, million tons	68.1	3.8	66.1	3.8
including the Gazprom Neft Group	43.5	3.8	42.6	3.8
the Gazprom Neftekhim Salavat Group	8.3	–	7.4	–

Note:

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

As compared to 2013, the decrease in gas processing is explained by the continuing decline in gas production at the Orenburgskoe and Vuktylskoye oil-gas condensate fields, which serve as the raw material suppliers for the Orenburgsky and Sosnogorsky refineries.

The increase in oil and unstable gas condensate processing volumes was driven by the increased production of liquid hydrocarbon feedstock from the Achimov formation, as well as finalisation of construction of the Urengoy-Surgut condensate pipeline, and increased refining volumes at the Gazprom Neftekhim Salavat Group's refineries and the Omsk Refinery, which resulted from the completion of planned repairs at the primary oil refining unit in the third quarter of 2013 and the lifting of logistical restrictions on shipments of dark oil products.

The following table presents production volumes of major refined products of the Gazprom Group:

	Year ended December 31,			
	2014[1]		2013[1]	
	Total	including abroad	Total	including abroad
Dry gas, bcm	23.3	–	24.2	–
Liquefied oil gas, million tons	3.4	0.1	3.3	0.1
including the Gazprom Neft Group	1.0	0.1	1.0	0.1
Broad fractions of light hydrocarbons, million tons	1,5	–	1.6	–
Stable gas condensate and crude oil, million tons	6.4	–	6.0	–
Oil products, million tons	53.6	3.8	51.9	3.7
including the Gazprom Neft Group	40.5	3.8	39.4	3.7
the Gazprom Neftekhim Salavat Group	7.0	–	6.4	–
Helium, mmcm	4.0	–	3.6	–
Sulphur, million tons	4.7	–	4.9	–
including the Gazprom Neft Group	0.1	–	0.1	–

Note:

[1] The data in tables do not include raw materials supplied by customers.

In the reporting year, initiatives for expanding the range of goods and upgrading the quality of products were realised.

Production of winter diesel fuel was begun at the Astrakhansky Refinery as a result of the implementation of a number of in-house technological solutions. The ramp-up of a new naphtha hydrotreater unit will allow the plant to begin production of ecological class 4 diesel fuel and the commissioning of a naphtha isomerisation unit will allow production of ecological class 5 Premium Euro-95 motor gasoline.

The Orenburgsky Refinery started production liquid helium while the Surgut Stable Condensate Plant started the production of technical propane-butane.

The Moscow Refinery began pilot operation of Russia's first new-generation polymer-modified bitumen unit under the G-Way Styrelf brand name. The unit, which was developed by a joint venture between the Gazprom Neft Group and French oil company Total, can produce 60,000 tons of polymer-modified bitumen and 7,000 tons of emulsified bitumen per year.

Sales of refined products

The following table presents sales of refined and petrochemical products by the Gazprom Group:

(million tons)	Year ended December 31,		Change, %
	2014 [1,2]	2013 [1,2]	
Russia	41.5	38.4	8.1
including the Gazprom Neft Group	28.3	25.9	9.3
FSU	4.0	4.7	-14.9
including the Gazprom Neft Group	2.2	3.3	-33.3
Europe and other countries	29.9	25.2	18.7
including the Gazprom Neft Group	19.2	16.5	16.4
Total	**75.4**	**68.3**	**10.4**

Notes:

(1) The volumes do not include intercompany sales. Sales of own products and products purchased from third parties.

(2) The volumes do not include helium.

In 2014, total volume of refined products sales increased by 10.4% and amounted to 75.4 million tons as compared to the previous year.

In 2014, volume of motor gasoline, jet fuel, liquefied natural gas and mazut sales increased as compared to 2013. Sales of mineral fertilisers and polymers also increased. These increases were

mainly driven by the increase in the production of refined products and/or increased purchases from companies outside of the Group.

In 2014, about 13% of the total volume of the Gazprom Group's refined products sales were sold via the Gazprom Neft Group's network of fuel stations. Sales via this network reached 9.9 million tons (versus 9.2 million tons in 2013). The increase in sales was driven by the upgrade and optimisation of the Company's own network of fuel stations, enhancement of their operational efficiency, development of the Company's own highly recognizable national brand and a strong degree of confidence in product quality. As of December 31, 2014, the Gazprom Neft Group owned an extensive network of 1,810 fuel stations in Russia, the FSU countries and Eastern Europe.

In 2014, the Group's sales of gaseous helium amounted to 2.7 mmcm, sales of liquid helium amounted to 1.1 million litres (in 2013 – 3.0 mmcm and 0.8 million litres, respectively).

Main areas of investments

In 2014, the volume of capital investments in the Refining segment amounted to RUB 135,158 million.

The major portion of capital investment in refining was channelled toward the construction of the Novy Urengoy gas chemical plant, modernization of production capacities at the Gazprom Neft Group's refineries, and reconstruction of the Astrakhan gas storage unit, construction of gas condensate pipeline Urengoy-Surgut (II line) as well as construction and modernization of the oil refining and petrochemical capacity of the Gazprom Neftekhim Salavat Group.

In 2014, new capacities in hydrocarbon refinery, manufacturing of petrochemical products were commissioned. An OG-500 helium liquefaction plant with a capacity of 4.2 million litres per year was commissioned at Orenburg Helium Plant; a condensate stabilization unit (technological lines 8-9) with a capacity of 4.0 million tons per year was commissioned at Surgut Stable Condensate Plant; an isomerization unit with a capacity of 300,000 tons per year was commissioned at Astrakhan Refinery.

At the Gazprom Neft Group's refineries major modernization projects have been implemented. A terminal for running, storage and pumping gas condensate for processing to increase output of light oil products was commissioned at the Omsky Refinery. Reconstruction of a primary oil refining unit was completed and a sulphur granulation block was commissioned at the Moscow Refinery. OAO Slavneft-Yaroslavnefteorgsintez, a refinery, completed reconstruction of a number of units involved in producing motor gasoline: catalytic cracking, sulphuric acid alkylation and production methyl tert-butylether units.

Reporting year events

The purchase of a 50% ownership interest in OOO Poliom, which is a joint venture based at the Omsk Propathene Plant, has been completed on a parity basis with OAO SIBUR Holding. The Gazprom Neft Group will supply raw materials (propane-propylene fraction from Omsky Refinery) to OOO Poliom, and OAO SIBUR Holding will then sell the finished products via its own distribution network.

Development plans for the Refining segment

The main objectives of the Gazprom Group's development in gas processing and gas chemistry include increasing the rate of extraction of valuable components of natural gas and associated petroleum gas (APG) and their effective use for further processing to marketable products with high added value. Plans also call for upgrading existing gas processing and gas chemical plants and building new ones, including in Eastern Siberia and the Russian Far East.

To ensure the development of promising liquid hydrocarbons derived from gas produced in Western Siberian gas condensate fields, plans have been developed for expanding and rebuilding the Urengoy Condensate Treatment Plant to bring its capacity up to projected levels, as well as creating treatment and transportation facilities for gas condensate and oil from the Achimov formation, finalising construction of the Urengoy-Surgut condensate pipeline, and expanding and reconstructing the Surgut Stable Condensate Plant.

Under a project financing framework, OAO Gazprom continues to carry out a project for establishing a gas chemical complex in New Urengoy, the feedstock for which will come from gases derived from condensate de-ethanization at the Urengoy Condensate Treatment Plant.

Natural gas from key fields of Eastern Siberia is characterized by high content of ethane, propane, methane hydrocarbon and helium, therefore their development requires simultaneous establishing gas processing and gas chemical centres.

In the Amur Region, Gazprom is building gas processing and helium plants that will use gas from the Yakutsk and Irkutsk gas production centres as a resource base. They will be located in the Svobodnensky District of the Amur Region. Plans call for commissioning the first line simultaneously with the commencement of gas supplies to China via the Power of Siberia gas pipeline.

Strategic goals in oil refining in Russia include implementation of programs on modernization of refining capacities and increase of their operating efficiency.

Within the selected framework, the Gazprom Neft Group plans to commission hydrocracking facilities at the Omsky Refinery (in 2018) and the Moscow Refinery (in 2019) with a capacity of 2 million tons per year at each plant. Plans also call for building the following major facilities: a flexi-coker unit at the Moscow Refinery by 2020 (2 million tons capacity) and a coking unit at the Omsky Refinery by 2019 (2 million tons capacity). An upgrade programme for OAO Slavneft-Yaroslavnefteorgsintez, which will also include an advanced oil processing centre, continues to be elaborated in detail. It is expected that the upgrade will allow the Gazprom Neft Group to reach a refining volume of 40 million tons per year within Russia, as well as increase the depth of the refinery to 95% and yield of light fractions up to 80% by 2025.

By 2025, the Gazprom Neft Group plans to increase total sales of motor fuels in Russia and FSU to 24.7 million tons. For implementing the established objectives it is planned to expand the retail network in Russia and FSU up to 1,880 fuel stations by 2025; the cost of staffing the fuel stations is expected to be fully covered by gross revenue from the related business.

Electric power

The following table presents assets and capital investments related to the Electricity and Heat Generation and Sale segment:

	As of December 31,	
	2014	**2013**
Assets, RUB million	799,914	798,781
Share in total assets of the Group, %	5.4	6.1

	Year ended December 31,	
	2014	**2013**
Capital additions, RUB million	82,019	77,191
Share in the Group’s total capital additions, %	6.7	6.4

The Gazprom Group is the largest owner of power generating assets whose installed capacity was 39.0 GW as of December 31, 2014. The Group is the largest producer of electricity in Russia. In 2014, Gazprom's share in electricity generation in Russia was 15%, its share in heat generation was 24%.

Information on the Gazprom Group's key generating assets in Russia is presented in the table below:

Generating companies	Generating capacity as of December 31, 2014, GW	Power generation, year ended December 31, 2014, billion kWh	Heat capacity as of December 31, 2014, thousand Gcal/h	Heat production, year ended December 31, 2014, million Gcal
OAO Mosenergo	12.7	56.7	40.4	70.3
OAO WGC-2	18.4	68.7	4.3	7.1
OAO TGC-1	7.2	26.4	14.2	24.3
OAO MIPC	0.2	0.4	10.5	18.4
OOO Novo-Salavatskaya TPP	0.5	2.4	1.6	5.1
Total	**39.0**	**154.6**	**71.0**	**125.2**

In 2014, electricity generated by the Gazprom Group totalled 154.6 billion kWh that is 4.3 % lower than in 2013; heat generation totalled 125.2 million Gcal, which is 11.3% more than in 2013. Decrease in electricity generation is mainly explained by the decline in generation due to minimization of ineffective power generation units loading and decline in demand for electricity. Increase in heat generation is driven by consolidation of OAO MIPC from the moment of obtaining control by the Group in September 2013.

The 5th power generating unit of Razdansky TPP owned by the Group's subsidiary and located in Armenia generated about 0.86 billion kWh of electricity in 2014.

In 2014, electricity generated by the Gazprom Group totalled 155.4 billion kWh.

All electricity generated by the Russian generating companies of the Group is sold in the 100% liberalized wholesale electricity and capacity market. In 2014, the increase in the ultimate price of electricity (capacity) represented 7-8% of the 2013 price on average. Also, small volumes of the produced electricity are exported to Norway and Finland.

The Group's generating companies purchase additional electricity and heat for resale to meet their obligations during shutdowns, including periods when emergency repairs are being made.

The Group's entity, OAO Mezhregionenergosbyt is one of the leaders in the Russian power trading market. The company provides for over 95% of electricity consumption of the Gazprom Group's subsidiaries. It also sells electricity to consumers outside the Group (in 2014 – 6.2 billion kWh).

The Gazprom Group also supplied electricity of 2.9 billion kWh (in 2013 - 2.3 billion kWh) to final consumers in United Kingdom, Germany and the Netherlands.

The Gazprom Group carries out trading operations with electricity in European trading floors. Total electricity trading volume amounted to 339 billion kWh.

Main areas of investment

In 2014, the Group's capital investments related to electricity and heat generation and sales amounted to RUB 82,019 million.

The Gazprom Group's investment programme is the largest in the Russian electrical power industry. The Group's generating companies are carrying out an investment programme that factors in current obligations under capacity supply agreements. As a result of the

implementation of such agreements by Group's entities in Russia, the growth in new capacity should amount to 9 GW from 2007 to 2016.

In 2014, the Group launched 905 MW of new generating capacity in Russia:

- the CCGT-420 MW power generating unit at TPP-16 of OAO Mosenergo with a capacity of 420 MW;
- the CCGT-420 MW power generating unit at the Cherepovetskaya GRES (OAO WGC-2) with a capacity of 420 MW;
- a gas turbine unit at TPP-9 of OAO Mosenergo with a capacity of 64.8 MW.

In 2007-2014 the Group launched 6.1 GW of new generating capacity under capacity supply agreements.

Gazprom is also decommissioning ineffective generating capacities. In 2014, 428 MW were decommissioned, including three turbo generators with a capacity of 150 MW and two boilers at the Serovskaya GRES of OAO WGC-2, as well as a power generating unit at the Troitskaya GRES of OAO WGC-2 with a capacity of 278 MW.

Investments in electrical power were primarily channelled to the construction of power-generating units at the Troitskaya GRES (660 MW) and Novocherkasskaya GRES (330 MW) of OAO WGC-2, a steam-gas unit at TPP-12 (220 MW) and TPP-20 (420 MW) of OAO Mosenergo, and a gas-turbine power unit (100 MW) at the Central TPP of OAO TGC-1.

Reporting year events

In October 2014, OAO TGC-1 sold the Ondonskaya GES with the established capacity of 80 MW. The deal value amounted to RUB 2.1 billion (less VAT).

Development plans for the Electricity and Heat Generation and Sale segment

The strategy for developing Gazprom's energy business in Russia was adopted in 2007. By expanding its presence in the electrical power industry, the Group will boost the long-term sustainability of all of its business operations while earning additional revenues. The strategic goals in the electrical power sector include the following:

- diversification of risks associated with tariff regulation;
- diversification of the fuel balance;
- construction of new capacity;
- improving operational efficiency.

In working toward reaching its strategic goals in Russia, the Group's primary focus will be on the construction of new combined heat and power capacity, which will allow for improving efficiency while expanding electricity and heat generation.

Among OOO Gazprom Energoholding's foreign projects, the most critical initiative is the construction of a TPP in Pancevo, Serbia, which is being implemented jointly with Naftna Industrija Srbije A.D. In 2015, a joint venture is planned to be created and active implementation of the project will begin.

INNOVATION-DRIVEN DEVELOPMENT

The OAO Gazprom Innovation Development Programme for the period up to 2020, which was approved in June 2011, is a document outlining the Company's policy in the area of long-term innovation-driven development.

The Innovation Development Programme is intended to cover a ten-year period. It encompasses the Group's oil, gas and electric power businesses, and outlines a set of interconnected measures aimed at developing and implementing new, world-class technologies, and innovative products and services, as well as creating the conditions for promoting innovation-driven activities in OAO Gazprom and allied industries across Russia.

Innovation-driven development priorities include:

- technologies for field exploration and development, including in the harsh climatic conditions of permafrost and offshore zones in northern seas;
- technologies for production at existing fields, including at the final stage of their development;
- technologies for improving the efficiency of gas transportation and storage;
- technologies for the sale and use of gas;
- technologies for gas processing and petrochemicals.

Gazprom maintains its own well-developed scientific and technical complex, which includes research institutes and specialised design centres. The primary objective of these institutes is to carry out the integrated development of effective technologies for the production, transportation and use of gas, and to implement new technical solutions in practice with the aim of achieving a high level of overall reliability for the gas industry.

In monetary terms, the volume of R&D performed under the Gazprom Group's orders in 2014 amounted to RUB 10.8 billion (net of VAT) (in 2013 – RUB 6.8 billion).

As of December 31, 2014, the Gazprom Group held 2,131 patents for patent rights subjects (including 218 patents received in the reporting year). In 2014, 351 patent rights subjects were used for production purposes. Rights to use 33 patented items were granted to third parties under license agreements. The resulting economic benefit is estimated at RUB 3.1 billion.

In 2014, OAO Gazprom continued its R&D cooperation with major foreign energy companies, including E.ON SE, BASF/Wintershall Holding GmbH, VNG-Verbundnetz Gas AG (Germany); N.V. Nederlandse Gasunie (the Netherlands); GDF SUEZ (France); Statoil ASA (Norway); Kogaz (South Korea); CNPC (PRC); Petrovietnam (Vietnam); and the Agency for Natural Resources and Energy of Japan's Ministry of Economy, Trade and Industry (METI).

Programmes for cooperation in science and technology have been developed and signed with Statoil ASA and E.ON SE. Additionally, a number of programmes for cooperation with GDF Suez, KOGAZ, CNPC and the Agency for Natural Resources and Energy of Japan's METI have been finalized and are now at the approval stage.

ENVIRONMENTAL PROTECTION

Gazprom makes every effort to ensure strict compliance with international and Russian environmental law, and voluntarily undertakes a number of environmental obligations.

OAO Gazprom's Ecological Policy was approved by the Board of Directors in 2011 and recommended for application by all Gazprom Group entities. Responsibility for application of the Ecological Policy lies with OAO Gazprom's Coordinating Committee for Environmental Protection and Energy Efficiency. The Committee monitors the Company's environmental protection activities and provides an overall assessment of these activities.

The Environmental Management System of OAO Gazprom (EMS of OAO Gazprom) is the key element of the Ecological Policy. The system integrates management bodies of the parent company and 36 wholly owned subsidiaries involved in gas and gas condensate exploration,

production, transportation, storage and processing, as well as in investment operations aimed at developing the Unified Gas Supply System (UGSS).

In 2011, Gazprom's EMS was certified for compliance with the ISO 14001:2004 International Standard. A recertification audit carried out by Det Norske Veritas, an independent international certification authority, in October 2014 confirmed that the system was in compliance with all relevant requirements.

In the EMS framework OAO Gazprom adopted the new Corporate Ecological Standards for 2014-2016 which define targets for planning and implementing environmental protection measures related to reduction in the emissions of metan and nitrogen oxides, waste water disposals in surface-water bodies, prevention of the waste landfilling, as well as energy-saving measures.

The main indicators for the Gazprom Group's environmental impact from its operating activities in Russia are presented below:

Main indicators	Year ended December 31,		Change,%
	2014	2013	
Pollutant emissions into the air, thousand tons	2,797.6	3,076.4	-9.1
Waste water disposal in surface-water bodies, mmcm	4,179.1	4,389.9	-4.8
Generation of waste, thousand tons	4,831.4	4,693.7	2.9
Lands damaged during the year, thousand ha	15.4	13.1	17.6
Recultivated lands, thousand ha	12.6	14.0	-10.0

Gross emissions of pollutants by the Gazprom Group decreased by 278,800 tons as compared to 2013. The main factors here were: the decrease of pollutant emissions of methane in trunk pipelines, underground storage and natural gas processing facilities as a result of the implementation of a special action plan; the decrease of pollutant emissions made by OOO Gazprom Energoholding subsidiaries due to decreased power generation; and technological measures taken by the Gazprom Neft Group to increase the level of APG utilization at fields and the implementation of a programme to reduce pollutant emissions at oil refineries.

The decrease in waste water disposal in surface-water bodies by the Gazprom Group is attributable primarily to the reduced consumption of water for technical use by OOO Gazprom Energoholding subsidiaries. The Gazprom Group has undertaken a number of environmental protection efforts aimed at promoting rational use of water resources and decreasing pollutants in bodies of water. In 2014, 102 waste treatment facilities with a total capacity of 1.4 mmcm per day were commissioned. Seven recirculated water systems with a capacity of 547.5 mmcm per day were built.

Waste generation increased by 137,700 tons due to the growth of drill mud volumes in the Gazprom Neft Group and of bottom ash waste volumes in OAO WGC-2. The increase in bottom ash is explained by the increased share of coal in the company's fuel mix.

In 2014, greenhouse gas emissions at the sites of OAO Gazprom and its wholly owned exploration, production, transportation, storage and refining subsidiaries totalled 110.7 million tons of CO_2-equivalent. The reduction of greenhouse gas emissions is explained by decreased consumption of gas for compression, improved efficiency in utilization of energy and resources, and other energy-saving measures.

The Gazprom Group's environmental costs incurred in operating activities in Russia are disclosed below:

(RUB billion)	Year ended December 31,		Change,%
	2014	2013	
Current environmental costs, total	31.66	31.46	0.6
including operating costs, costs of environment-related services	27.45	28.35	–3.2
including costs of capital repairs of fixed assets used for environmental protection	4.20	3.11	35.0
Capital environmental costs	15.58	24.95	–37.6
Pollution charges	1.75	2.95	–40.7
Total	**48.99**	**59.36**	**–17.5**

The decrease in environmental investments as compared to 2013 is explained by the completion of environmental activities under the Programme for the Construction of Olympic Facilities and Development of Sochi as a Mountain Resort.

In 2014, the Gazprom Group made payments totalling RUB 1.75 billion to Russian Federation budgets at various levels of government for its negative impact on the environment. The 40.7% decrease as compared to 2013 was primarily due to the increased level of APG utilization by Gazprom Neft. Payments for emissions of air pollutants and waste generation, which are significant ecological by-products of the Gazprom Group's activities, represented major components in the structure of the Group's payments in 2014.

In 2014, Gazprom Group entities underwent 451 governmental inspections. While 416 violations were identified, 329 (79%) of them did not represent any threat to the environment and, thus, no penalties were imposed. The identified violations were eliminated by the specified dates. In the reporting period, 323 violations were eliminated.

In 2014, the Gazprom Group paid fines of RUB 17.7 million, out of which RUB 10.9 related to violations identified in the reporting period and RUB 6.8 million to violations in prior years.

EMPLOYEES

Having guided by the conventions developed by the International Labour Organization the Gazprom Group complies with principles which relate to underlying rights being the subject of these conventions, namely:

- freedom of association and the effective recognition of the right to collective bargaining;
- elimination of all forms of forced or compulsory labour;
- effective abolition of child labour;
- elimination of discrimination in respect of employment and occupation.

The Gazprom Group also complies with international standards related to salaries, duration of the working day and labour conditions, employees' compensation for their work, social security, grating paid vacation, labour safety and others.

As of December 31, 2014, the number of employees in the Gazprom Group's subsidiaries was 459,600 people, which is consistent with the prior year. The table below shows the structure of the Gazprom Group's employees:

	As of December 31, 2014, %
Managers	13.7
Specialists	26.5
Workers	55.3
Other employees	4.5

The age composition of the Group's personnel is well balanced. The table below shows the age structure of the Gazprom Group's personnel:

	As of December 31, 2014, %
up to 30 years	18.5
30 – 40 years	29.0
40 – 50 years	27.0
50 years and older	25.5

Gazprom has a system of continuing in-house professional education, which is based on corporate training institutions. It is aimed at training employees in accordance with increasing operating and quality requirements, new technologies and the expansion of Gazprom's presence in the regions. In 2014, 265,100 employees of the Gazprom Group attended advanced and professional training courses.

Social and labour relations in the Gazprom Group were regulated by labour legislation, General Agreement between Russian Associations of Trade Unions, all-Russian Employers' Associations and Russian Government, Industry Agreement for Entities of Oil and Gas Sectors and Construction of Oil and Gas Facilities, collective labour agreements and local regulations of the Gazprom Group's entities.

The social policy pursued by Gazprom allows meeting the challenges of motivating employees and enhancing their efficiency. The key principle of the social policy is social partnership which is implemented by providing employees with various social benefits, personal insurance, and medical insurance, housing and supplementary pension coverage.

ANALYSIS OF FINANCIAL RESULTS OF OPERATIONS

Results of operations

(RUB million)	Year ended December 31, 2014	2013
Sales	5,589,811	5,249,965
Net (loss) gain from trading activity	(22,510)	5,850
Operating expenses	(3,943,669)	(3,600,908)
Charge for impairment and other provisions, net	(313,208)	(67,698)
Operating profit	**1,310,424**	**1,587,209**
Finance income	389,804	129,523
Finance expense	(1,438,541)	(284,107)
Share of net income of associated undertakings and joint ventures	46,051	56,670
Losses on disposal of available-for-sale financial assets	(915)	(3,212)
Profit before profit tax	**306,823**	**1,486,083**
Current profit tax expense	(121,343)	(201,872)
Deferred profit tax expense	(28,288)	(118,506)
Profit tax expense	(149,631)	(320,378)
Profit for the year	**157,192**	**1,165,705**
Other comprehensive income (loss):		
Items that will not be reclassified to profit or loss:		
Remeasurements of post-employment benefit obligations	34,438	55,424
Total items that will not be reclassified to profit or loss	**34,438**	**55,424**
Items that will be reclassified to profit or loss:		
(Losses) gains arising from change in fair value of available-for-sale financial assets, net of tax	(2,933)	12,578
Share of other comprehensive (loss) income of associated undertakings and joint ventures	(14,769)	10,100
Translation differences	570,402	56,847
Losses from cash flow hedges, net of tax	(60,550)	(2,305)
Total items that will be reclassified to profit or loss	**492,150**	**77,220**
Other comprehensive income for the year, net of tax	**526,588**	**132,644**
Total comprehensive income for the year	**683,780**	**1,298,349**
Profit (loss) attributable to:		
Owners of OAO Gazprom	159,004	1,139,261
Non-controlling interest	(1,812)	26,444
	157,192	**1,165,705**
Total comprehensive income attributable to:		
Owners of OAO Gazprom	667,609	1,267,383
Non-controlling interest	16,171	30,966
	683,780	**1,298,349**

Sales

The following table summarises volumes and prices:

(RUB million unless indicated otherwise)	Year ended December 31, 2014	2013
Sales of gas		
Europe and Other countries		
Gross sales [1]	2,149,976	2,115,748
Customs duties	(397,829)	(432,987)
Net sales	1,752,147	1,682,761
Volumes in billion cubic meters (bcm)	159.4	174.3
Gross average price, U.S.$ per mcm (including customs duties) [2]	349.4	380.5
Gross average price, RUB per mcm (including customs duties)	13,487.2	12,137.9
FSU (Former Soviet Union)		
Gross sales [1]	486,079	504,681
Customs duties	(74,357)	(84,361)
Net sales	411,722	420,320
Volumes in bcm	48.1	59.4
Gross average price, U.S.$ per mcm (including customs duties) [2]	262.1	266.5
Gross average price, RUB per mcm (including customs duties)	10,115.9	8,499.9
Russian Federation		
Gross sales (net of VAT)	820,567	794,349
Net sales	820,567	794,349
Volumes in bcm	232.4	243.3
Gross average price, RUB per mcm (net of VAT)	3,530.9	3,264.6
Total sales of gas		
Gross sales (net of VAT)	3,456,622	3,414,778
Customs duties	(472,186)	(517,348)
Retroactive gas price adjustments	949	74,393
Net sales	2,985,385	2,971,823
Volumes in bcm	439.9	477.0
Net sales of refined products (net of excise tax, VAT and customs duties)	1,619,214	1,351,713
Net sales of electric and heat energy (net of VAT)	426,951	375,589
Net sales of crude oil and gas condensate (net of VAT and customs duties)	209,234	210,216
Gas transportation net sales (net of VAT)	172,842	163,265
Other revenues (net of VAT)	176,185	177,359
Total sales (net of excise tax, VAT and customs duties)	**5,589,811**	**5,249,965**

Notes.

[1] VAT is not charged on sales to Europe and Other countries, as well as FSU countries.

[2] Calculated on the basis of average exchange rate between Rouble and US dollar.

Total sales (net of VAT, excise tax and customs duties) increased by RUB 339,846 million, or 6%, to RUB 5,589,811 million in 2014 as compared with 2013.

Net sales of gas accounted for 53% and 57% of total net sales in 2014 and 2013, respectively.

Net sales of gas increased by RUB 13,562 million, or 0%, from RUB 2,971,823 million in 2013 to RUB 2,985,385 million in 2014.

Net sales of gas to Europe and Other countries increased in 2014 as compared with 2013, by RUB 69,386 million, or 4%, to RUB 1,752,147 million. Overall increase in net sales of gas to Europe and Other countries was caused by an increase in the gross average Rouble price (including customs duties) by 11% in 2014, as compared with 2013, although the average price denominated in US dollar decreased by 8%. The volume of gas sold decreased by 9% in 2014 as compared with 2013.

Net sales of gas to FSU countries decreased by RUB 8,598 million, or 2%, to RUB 411,722 million in 2014 as compared with 2013. The change was due to a 19% decrease in volumes of gas sold and a 19% increase in gross average Rouble price (including customs duties) in 2014 as compared with 2013. The average price denominated in US dollar decreased by 2%.

Net sales of gas in the Russian Federation increased in 2014 as compared with 2013 by RUB 26,218 million, or 3%, to RUB 820,567 million due to 8% increase in the gross average domestic gas prices. Volume of gas sold decreased by 4% in 2014 as compared with 2013.

Net sales of refined products (net of excise tax, VAT and customs duties) increased by RUB 267,501 million, or 20%, to RUB 1,619,214 million in 2014 in comparison with the prior year primarily due to an increase in prices and volumes of Gazprom neft Group's sales to customers in Russian Federation, Europe and Other countries. In 2014 and 2013 the Gazprom neft Group's sales comprised 72% and 76% of the total amount of net sales of refined products, respectively.

Net sales of electric and heat energy (net of VAT) increased by RUB 51,362 million, or 14%, to RUB 426,951 million in 2014 as compared with 2013. Increase is primarily due to inclusion of OAO MIPC in the consolidated financial statements from September 2013.

Gas transportation net sales (net of VAT) increased by RUB 9,577 million, or 6%, to RUB 172,842 million in 2014 as compared with RUB 163,265 million in 2013. This increase is primarily due to an increase in transportation volumes and gas transportation tariffs for independent suppliers.

Operating expenses

Operating expenses increased by 16% in 2014 to RUB 4,256,877 million as compared with RUB 3,668,606 million in 2013. Operating expenses as a percentage of sales increased from 70% in 2013 to 76% in 2014. The table below presents a breakdown of operating expenses in each period:

(RUB million)	Year ended December 31,	
	2014	**2013**
Purchased gas and oil	792,723	753,829
Taxes other than on income	775,826	706,667
Staff costs	516,778	497,852
Depreciation	472,151	419,019
Transit of gas, oil and refined products	399,561	358,829
Charge for impairment and other provisions, net	313,208	67,698
Cost of goods for resale, including refined products	292,150	136,776
Materials	267,552	236,354
Repairs and maintenance	172,395	200,621
Electricity and heating expenses	87,228	87,242

Social expenses	46,429	34,970
Transportation services	33,431	29,909
Rental expenses	33,292	27,167
Insurance expenses	29,096	25,052
Research and development expenses	19,653	16,738
Processing services	18,121	14,423
Derivatives losses (gains)	7,141	(8,512)
Heat transmission	180	5,075
Foreign exchange differences on operating items	(243,438)	(45,050)
Other	300,099	233,795
	4,333,576	**3,798,454**
Changes in inventories of finished goods, work in progress and other effects	(76,699)	(129,848)
Total operating expenses	**4,256,877**	**3,668,606**

Purchased gas and oil

The cost of purchased gas and oil increased by RUB 38,894 million to RUB 792,723 million in 2014 as compared with RUB 753,829 million in 2013. The cost of purchased gas increased by RUB 36,103 million, or 7%. This increase mainly relates to the increase of costs for gas purchased from third parties abroad. The cost of purchased oil included in the cost of purchased gas and oil increased slightly to RUB 218,069 million in 2014 as compared with RUB 215,278 million in 2013.

Taxes other than on income

Taxes other than on income include:

	Year ended December 31,	
(RUB million)	**2014**	**2013**
Mineral extraction tax	563,404	512,885
Property tax	89,010	75,468
Other taxes	123,412	118,314
Taxes other than on income	**775,826**	**706,667**

The mineral extraction tax increased by 10% to RUB 563,404 million in 2014 as compared with RUB 512,885 million in 2013. The increase is mainly due to dynamics of mineral extraction tax rate for natural gas and oil.

Staff costs

Staff costs increased by 4% to RUB 516,778 million in 2014 as compared with RUB 497,852 million in 2013. The increase was mainly due to the average salary indexation and increase in average number of personnel.

Depreciation

Depreciation increased by 13%, or RUB 53,132 million, to RUB 472,151 million in 2014 as compared with RUB 419,019 million in 2013. The increase is primarily due to the growth in the fixed assets base.

Transit of gas, oil and refined products

Transit of gas, oil and refined products increased by 11% to RUB 399,561 million in 2014 as compared with RUB 358,829 million in 2013. This increase was mainly driven by increase in transportation volumes through the Nord Stream pipeline and through pipelines on the territory of Germany.

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products increased by RUB 155,374 million to RUB 292,150 million in 2014 as compared with RUB 136,776 million in 2013. The increase was mainly due to the growth in volumes of external refined products purchased.

Materials

The cost of materials increased by 13% to RUB 267,552 million in 2014 as compared with RUB 236,354 million in 2013. The increase mainly relates to inclusion of OAO MIPC in the consolidated financial statements from September 2013, as well as to an increase in purchases of materials from third parties and increase in prices.

Foreign exchange differences on operating items

Foreign exchange differences on operating items, primarily on accounts receivable, amounted to a net gain of RUB 243,438 million for 2014 as compared with a net gain of RUB 45,050 million for 2013. The change was primarily driven by a 72% appreciation of the US dollar against Rouble and a 52% appreciation of Euro against Rouble in 2014, as compared with an 8% appreciation of US dollar against Rouble and a 12% appreciation of Euro against Rouble in 2013.

Other operating expenses

Other operating expenses increased by 28% to RUB 300,099 million in 2014 as compared with RUB 233,795 million in 2013. Other expenses include gas and gas condensate production expense, services from gas distribution companies, bank charges, security services, legal and consulting services, charity, financial aid, and advertising.

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

Changes in inventories of finished goods, work in progress and other effects decreased by RUB 53,149 million to RUB 76,699 million in 2014 as compared with RUB 129,848 million in 2013. The negative amount of the line item is mainly due to an increase in the balances of finished goods as of December 31, 2014 as compared with the balances as of December 31, 2013.

Charge for impairment and other provisions, net

Charge for impairment and other provisions amounted to RUB 313,208 million in 2014 as compared with RUB 67,698 million in 2013. Such an increase includes accrual of provision for doubtful trade accounts receivable of NAK Naftogaz Ukraine in the amount of RUB 34,068 million and of AO Moldovagaz in the amount of RUB 5,948 million, and for loans issued in the amount of RUB 14,124 million.

Based on the results of the impairment test the Group recognized an impairment loss in the amount of RUB 42,630 million for power generating assets and RUB 33,752 million for oil production assets as of December 31, 2014. The impairment was primarily triggered by an increase in discount rates due to the economic environment in the Russian Federation.

Based on the results of the impairment test conducted as of December 31, 2014 the Group recognized an impairment loss in relation to goodwill in refining and electric and heat energy generation and sale segments in the amount of RUB 47,620 million.

In December 2014 the Group provided a guarantee to Gazprombank (Joint Stock Company) related to debts from Ostchem Holding Limited under the credit facility for financing of operating activities. As of 31 December 2014 the above guarantee amounted to RUB 47,407 million and was fully provided for.

Operating profit

As a result of the factors discussed above, our operating profit decreased by RUB 276,785 million, or 17%, to RUB 1,310,424 million in 2014 as compared with RUB 1,587,209 million in 2013. The operating profit margin decreased from 30% in 2013 to 23% in 2014.

Net finance expense

	Year ended December 31,	
(RUB million)	**2014**	**2013**
Exchange gains	322,821	96,125
Exchange losses	(1,393,792)	(241,339)
Net exchange loss	(1,070,971)	(145,214)
Interest income	66,983	33,398
Interest expense	(44,749)	(42,768)
Net finance expense	**(1,048,737)**	**(154,584)**

The net exchange loss of RUB 1,070,971 million in 2014 in comparison with net exchange loss of RUB 145,214 million in 2013 is mainly explained by appreciation of US dollar against Rouble by 72% and 52% appreciation of Euro against Rouble in 2014, as compared with an 8% appreciation of US dollar against Rouble and appreciation of Euro against Rouble by 12% in 2013. These forex changes increased the Group's liabilities denominated in foreign currencies.

Interest income increased by 101% to RUB 66,983 in 2014 as compared with RUB 33,398 million in 2013, mainly due to an increase in interest accrued on Group's cash held with banks.

Interest expense increased by 5% to RUB 44,749 million in 2014 as compared with RUB 42,768 million in 2013.

Share of net income of associated undertakings and joint ventures

Share of net income of associated undertakings and joint ventures decreased by RUB 10,619 million, or 19%, to RUB 46,051 million in 2014 as compared to RUB 56,670 million in 2013.

The decrease in the Group's share of net income of associated undertakings and joint ventures in 2014 is mainly due to accrual of impairment provision for investment in Shtokman Development A.G. in the amount of RUB 27,378 million. This change was partially offset by an increase in net income of Sakhalin Energy Investment Company Ltd. due to increase in revenue of liquefied natural gas and crude oil.

Profit tax

Total profit tax expense decreased by RUB 170,747 million, or 53%, to RUB 149,631 million in 2014 as compared with RUB 320,378 million in 2013. The effective profit tax rate was 48.8% and 21.6% in 2014 and 2013, respectively.

The change in effective tax rate was mainly driven by an increase in non-deductible expenses, which were primarily related to accrual of provision for impairment of assets and other reserves.

Profit for the period attributable to owners of OAO Gazprom

As a result of the factors discussed above, our profit for the period attributable to owners of OAO Gazprom decreased by RUB 980,257 million, or 86%, and amounted to RUB 159,004 million in 2014 as compared with RUB 1,139,261 million in 2013.

Loss for the period attributable to non-controlling interest

Loss for the period attributable to non-controlling interest amounted to RUB 1,812 million in 2014 as compared to profit attributable to non-controlling interest in the amount of RUB 26,444 million in 2013. The change is due to recognition of loss from impairment of assets, attributable to non-controlling interest in the amount of RUB 18,312 million.

Liquidity and capital resources

The following table summarizes our statement of cash flows for 2014 and 2013:

(RUB million)	Year ended December 31,	
	2014	**2013**
Net cash from operating activities	1,915,769	1,741,804
Net cash used in investing activities	(1,441,305)	(1,466,512)
Net cash used in financing activities	(262,587)	(33,262)

Net cash from operating activities

Net cash from operating activities increased by RUB 173,965 million, or 10%, and amounted to RUB 1,915,769 million in 2014 as compared with RUB 1,741,804 million in 2013. The increase was primarily due to positive dynamics in working capital changes.

Net cash used in investing activities

Net cash used in investing activities decreased by RUB 25,207 million, or 2%, to RUB 1,441,305 million in 2014 as compared with RUB 1,466,512 million in 2013. The change was primarily due to a decrease in cash used for capital expenditures in 2014 as compared with 2013. The decrease was offset by an increase of investments in associated undertakings and increase in long-term loans issued in 2014 as compared with 2013.

Net cash used in financing activities

Net cash used in financing activities amounted to RUB 262,587 million in 2014 as compared with RUB 33,262 million in 2013. The change was primarily due to a decrease in proceeds from long-term borrowings and increase in dividends paid in 2014 as compared with 2013.

Working capital

The working capital surplus (current assets less current liabilities) was RUB 1,605,208 million as of December 31, 2014 and RUB 1,471,205 million as of December 31, 2013. The increase in our working capital by RUB 134,003 million in 2014 was primarily due to increase in cash and cash equivalents, increase in other current assets and inventories. These effects were offset by increase in accounts payable and current portion of long-term borrowings.

The increase in other current assets by RUB 197,433 million was mainly caused by increase in short-term deposits and increase in prepaid profit tax due to decrease in taxable profit in 2014.

The increase in inventories by RUB 102,192 million was driven by growth in cost of gas in pipelines and storages.

The increase in accounts payable by RUB 321,447 million was mainly caused by increase in accrued liabilities related to possible gas price adjustments on gas supplied to customers in 2014, accrual of provision under financial guarantees provided to Gazprombank (Joint Stock Company) related to debts from Ostchem Holding Limited, and the inclusion of South Stream Transport B.V. and its subsidiaries in the consolidated financial statements in 2014.

Management of OAO Gazprom believes that the Group has sufficient working capital to meet the Group's obligations for at least the next twelve months. However, the Group is dependent on the short-term credit markets to finance its working capital.

Capital expenditures

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) by segment for 2014 and 2013 in nominal Rouble terms, amounted to the following:

(RUB million)	Year ended December 31, 2014[(1)]	2013[(1)]
Transportation	519,819	470,449
Production of natural gas	306,278	317,177
Production of crude oil and gas condensate	253,816	266,603
Refining	151,907	134,675
Electric and heat energy generation and sales	91,343	91,975
Distribution	27,424	43,612
Gas storage	17,820	28,251
All other segments	54,801	122,427
Total	**1,423,208**	**1,475,169**

Note.

(1) The capital expenditures in the analysis differ from the capital additions disclosed within the Group's business segments in the IFRS consolidated financial statements of OAO Gazprom primarily due to VAT.

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) decreased by RUB 51,961 million, or 4%, from RUB 1,475,169 million in 2013 to RUB 1,423,208 million in 2014.

The increase of capital expenditures in Transport segment was due to construction of Bovanenkovo-Ukhta gas pipeline system and extension of the unified gas supply system to ensure gas supply to South Stream pipeline.

The decrease in capital expenditures in the segment of Production of crude oil and gas condensate was mainly due to the decrease of capital expenditures of Gazprom neft Group.

The decrease in capital expenditures in other segments is mainly explained by completion of construction of facilities provided by the Program of Construction of Olympic Venues and the Development of Sochi as a Mountain Climate Resort.

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, net of cash and cash equivalents as well as restricted cash and cash equivalents under the terms of certain borrowings and other contractual obligations) increased by RUB 537,835 million, or 48%, from RUB 1,112,798 million as of December 31, 2013 to RUB 1,650,633 million as of December 31, 2014. This increase resulted from depreciation of Rouble against US dollar and Euro which was offset by an increase in cash and cash equivalents.

(RUB million)	As of December 31, 2014	2013
Long-term borrowings		
Fixed interest rate borrowings	2,044,351	1,427,690
Weighted average interest rates for fixed rate borrowings	6.15%	6.31%
Variable interest rate borrowings	591,503	334,602

(RUB million)	As of December 31, 2014	As of December 31, 2013
Weighted average interest rates for variable rate borrowings	2.98%	2.97%
Total long-term borrowings	**2,635,854**	**1,762,292**
RUB denominated borrowings	289,934	245,412
Foreign currency denominated borrowings	2,345,920	1,516,880
Total long-term borrowings	**2,635,854**	**1,762,292**
Less: current portion of long-term borrowings	(411,862)	(292,341)
Add: long-term promissory notes	50	51
Total long-term debt obligations	**2,224,042**	**1,470,002**
Short-term borrowings		
Fixed interest rate borrowings	21,279	38,699
Weighted average interest rates for fixed rate borrowings	12.19%	6.87%
Variable interest rate borrowings	31,590	836
Weighted average interest rates for variable rate borrowings	3.10%	5.38%
Total short-term borrowings	**52,869**	**39,535**
RUB denominated borrowings	14,667	25,692
Foreign currency denominated borrowings	38,202	13,843
Total short-term borrowings	**52,869**	**39,535**
Add: current portion of long-term borrowings	411,862	292,341
Add: short-term promissory notes	51	50
Total short-term debt obligations	**464,782**	**331,926**
Total borrowings	**2,688,824**	**1,801,928**

The following table presents our actual foreign currency denominated long-term borrowings (expressed in millions of USD) as of December 31, 2014 and 2013 as well as the same balances denominated in RUB:

	As of December 31, 2014	As of December 31, 2013
USD denominated (expressed in USD million)	26,479	27,817
EUR denominated (expressed in USD million) [(1)]	14,707	17,952
Other currencies denominated (expressed in USD million)	513	577
Total long-term foreign currency denominated borrowings expressed in USD million	**41,699**	**46,346**
Total long-term foreign currency denominated borrowings expressed in RUB million[(2)]	**2,345,920**	**1,516,880**

Notes.

[(1)] Converted at EUR/USD exchange rates of 1.21 and 1.37 as of December 31, 2014 and 2013, respectively.

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

As of December 31, 2014 and 2013 according to the project facility agreement, signed within the framework of the development project of Yuzhno-Russkoe oil and gas field with a group of international financial institutions with UniCredit Bank AG acting as a facility agent, ordinary shares of OAO Severneftegazprom with a pledge value of RUB 16,968 million and fixed assets with a pledge value of RUB 26,210 million were pledged to ING Bank N.V. (London branch) up to the date of full redemption of the liabilities under the above agreement. As of December 31, 2014 and 2013 the carrying amounts of these fixed assets were RUB 24,044 million and RUB 24,614 million, respectively. Management of the Group does not expect any substantial consequences to occur which relate to the respective pledge agreement.

The following table presents the schedule of repayments for long-term borrowings (excluding long-term promissory notes) as of December 31, 2014 and 2013:

(RUB million)	As of December 31,	
	2014	**2013**
Between one and two years	404,096	242,531
Between two and five years	970,558	640,690
After five years	849,338	586,730
Total	**2,223,992**	**1,469,951**

SHAREHOLDER STRUCTURE AND STOCK MARKET OF OAO GAZPROM

OAO Gazprom's charter capital amounts to RUB 118,367,564,500, consisting of 23,673,512,900 ordinary registered shares with a nominal value of RUB 5 each. There are no preference shares.

The following table presents the shareholder structure of OAO Gazprom:

	As of December 31,	
	2014	**2013**
Russian Federation represented by the Federal Agency for State Property Management	38.37%	38.37%
OAO Rosneftegaz[(1)]	10.97%	10.97%
OAO Rosgazifikatsiya[(2)]	0.89%	0.89%
ADR holders[(3)]	28.05%	25.78%
Other entities	21.72%	23.99%

Notes:

(1) As of December 31, 2013 and December 31, 2014, the share of the Russian Federation represented by the Federal Agency for State Property Management in OAO Rosneftegas was 100 %.
(2) As of December 31, 2013 and December 31, 2014, OAO Rosneftegas owned 74.55 % shares of OAO Rosgazifikatsiya.
(3) Bank emitting ADR issued against OAO Gazprom's ordinary shares – the Bank of New York Mellon.

OAO Gazprom's are shares included on the Tier 1 Quotation List on the Russian stock market: the MICEX Stock Exchange and OAO St Petersburg Stock Exchange.

OAO Gazprom's American Depositary Receipts (ADRs) are freely tradable on the London, Berlin and Frankfurt Stock Exchanges. However, the majority of transactions with these ADRs are registered on the London Stock Exchange.

The following table summarises quotations for OAO Gazprom's shares and ADRs:

	As of December 31,		Change, %
	2014	**2013**	
MICEX			
Closing price for share, RUB	130.31	138.75	-6.1
Minimum	117.87	107.17	10.0
Maximum	153.25	158.00	-3.0
Average daily trading volume, mln.	52.5	43.9	19.6
Average daily trading volume, RUB billion.	7.2	5.9	22.0
LSE			
Closing price for ADR, USD	4.65	8.55	-45.6
Minimum	3.73	6.48	-42.4
Maximum	9.06	9.82	-7.7
Average daily trading volume, mln.	27.6	25.0	10.4
Average daily trading volume, mln. USD	204.4	211.0	-3.1

As of December 31, 2014, market capitalization of OAO Gazprom totalled RUB 3.08 trillion, or USD 54.8 billion, having decreased by 6.1% in the rouble equivalent during the year. In 2014, the average market capitalization of OAO Gazprom decreased by 2.5% and totalled RUB 3.27 trillion or USD 86.7 billion as compared to 2013.

As of December 31, 2014, dividends paid in 2014 based on OAO Gazprom performance results for 2013 are as follows:

	As of December 31, 2014			
	Accrued, RUB thousand	**Paid, RUB thousand**	**Unpaid dividends, RUB thousand**	**Proportion of unpaid and accrued dividends,%**
Total	**170,449,293**	**170,016,370**	**432,923**	**0.25**
including dividends on shares:				
owned by the Russian Federation represented by the Federal Agency for State Property Management	65,407,152	65,407,152	–	–
owned by individuals and legal entities whose rights to the shares are recorded in the register	24,335,928	24,136,184	199,744[(1)]	0.82
owned by individuals and legal entities whose rights to the shares are recorded by a depositary and which have a nominee account in the issuer's register[(2)]	80,706,128	80,473,034	233,094[(1)]	0.29
owned by undefined holders	85	–	85	100

Notes:

(1) Dividends were not paid to individuals and legal parties who did not provide the data required for dividend payments as per para 5, Article 44 of Federal Law No. 208-FZ "On Joint Stock Companies" of December 26, 1995. Dividends accrued on shares of unidentified holders shall be paid upon establishment of the shareholders' rights for such securities.

(2) Dividends paid by OAO Gazprom to nominal holders on July 31, 2014 within the actions performed to implement the decisions made by the General Shareholders' Meeting on payment of dividends for 2013 performance results amounted to RUB 80,706,128,000. As of December 31, 2014, dividends for which nominal holders failed to perform their obligation to transfer dividends provided for by Russian securities legislation for reasons beyond their control (para 8, Article 42 of Federal Law No. 208-FZ of December 26, 1995) amounted to RUB 233,094,000.

CORPORATE GOVERNANCE

Key corporate governance principles are set out in the Corporate Governance (Conduct) Code of OAO Gazprom approved by the General Shareholders' Meeting of OAO Gazprom on 28 June 2002.

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

Corporate governance is focused on mandatory observance of rights of all shareholders of OAO Gazprom. OAO Gazprom's key documents related to corporate governance are based on fair treatment of shareholders, protection of their rights and interests regardless of a number of owned shares.

Key documents of OAO Gazprom which provide for the shareholders' rights include:

- Articles of Association (amended in 2014);
- Code of Corporate Governance (Behaviour);
- Code of Corporate Ethics (amended in 2014);
- Regulation on General Shareholders Meeting ;
- Regulation on Board of Directors (amended in 2014);
- Regulation on Audit Committee of Board of Directors (amended in 2014);
- Regulation on Management Committee;
- Regulation on Chairman of Management Committee;

- Regulation on Audit Commission;
- Regulation on Internal Control System (amended in 2014);
- Procedures for Documenting of Proposals and Requests of Shareholders Related to the Convocation of the General Shareholders' Meeting;
- Dividend policy;
- Regulation on Information Disclosure;
- Procedure for Shareholders' Familiarization with Information ;
- Regulation of JSC "Gazprom" on control of compliance with the laws on countering the unlawful use of insider information and market manipulation.

All the above documents and OAO Gazprom's Charter can be found on OAO Gazprom's official web-site www.gazprom.com or in the shareholders' affairs division, whose details can be found on OAO Gazprom's official web-site.

Development of OAO Gazprom's corporate governance in 2014

OAO Gazprom has been continuously improving its corporate governance systems in line with global best practice in this area. The following changes took place during the reporting year:

- OAO Gazprom's shares were included in the Tier 1 (top) Quotation List on the Russian stock market: the MICEX Stock Exchange and OAO St Petersburg Stock Exchange. Tier 1 (top) lists are formed by the stock exchanges in accordance with new listing rules.
- The Company obtained a listing on the Singapore Stock Exchange.
- A corporate regulation on OAO Gazprom's key performance indicators was adopted (decision of the Board of Directors of October 21, 2014). The regulation defines the concept and system of key performance indicators (KPIs), their main groups, and goals and tasks, as well as relevant requirements for the KPIs. The document also sets the KPIs by which members of OAO Gazprom management are assessed, members of the Board of Directors are incentivized, and HR decisions are made. This group includes, but is not limited to, such indicators as total shareholder return (TSR) and return on equity (ROE).
- In the framework of OAO Gazprom's transparency improvement project, the timeframe for submitting information on the annual General Shareholders' Meeting to shareholders was extended in 2014 (in 2013 the timeframe was increased from 20 to 30 days before the date of the meeting and in 2014 up to 37 days before the date of the meeting).
- OAO Gazprom's Corporate Ethics Committee began to function.
- A whistle-blower hotline was established to counter any potential cases of fraud, corruption or embezzlement in the Gazprom Group.
- At OAO Gazprom's initiative, independent corporate governance audits were performed at Gazprom-controlled entities, shares in which are publicly traded in organized securities markets and/or which have made or are in the process of making a public offering of their bonds or other securities. In connection with such audits, the Group considered the issue of developing a step-by-step action plan aimed at creating the optimal corporate governance model adapted to the specifics of the Gazprom Group's operations. Audit results were discussed at a meeting of the OAO Gazprom Board of Directors.
- Regulatory documents governing the operation of OAO Gazprom's internal control system were updated to specify the principles of the system's operation and define key control procedures.

Assessment of whether OAO Gazprom's corporate governance complies with the Russian Code of Corporate Governance

In November 2014, a benchmarking analysis was conducted of the corporate governance standards currently applied at OAO Gazprom and the Code of Corporate Governance approved by the Board of Directors of the Bank of Russia on March 21, 2014 (hereinafter referred to as the "Russian Code of Corporate Governance"). The benchmarking results confirmed that OAO Gazprom's corporate governance practice is for the most part in compliance with the recommendations of the Russian Code of Corporate Governance.

However, there are a number of key principles and recommendations of the Russian Code of Corporate Governance with which OAO Gazprom is not in compliance or not fully in compliance. The key principles of the Russian Code of Corporate Governance include those that correspond to the mandatory requirements of Russia's main stock exchanges (ZAO MICEX Stock Exchange and OAO St Petersburg Stock Exchange) for the corporate governance of securities issuers when shares are included in the Tier 1 Quotation List (Gazprom must comply with these requirements to maintain the level of its listing on these stock exchanges).

A draft action plan of measures aimed at introducing key provisions of the Code of Corporate Governance in OAO Gazprom's operations has been prepared, in accordance with OAO Gazprom Board of Directors Decision No. 2452 of November 27, 2014, which takes into account the results of the benchmarking analysis as well as management's objective ability to ensure the implementation of the planned measures. The draft action plan has been submitted to the Federal Agency for State Property Management and the Russian Ministry of Energy for the purpose of drafting relevant guidelines.

Management structure of OAO Gazprom

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, the Board of Directors, the Management Committee and the Chairman of the Management Committee. The General Meeting of Shareholders is Gazprom's highest governing body and, among other things, elects its Board of Directors. The Board of Directors is responsible for the general management of OAO Gazprom activities except for the matters that are assigned to the competence of the General Meeting of Shareholders under the Federal Law "On Joint Stock Companies". The Chairman of the Management Committee is the sole executive body of OAO Gazprom and the Management Committee is its collective executive body. The Management Committee and the Chairman of the Management Committee are responsible for managing OAO Gazprom on a day-to-day basis.

The Board of Directors and the Management Committee

The below table presents the information on members of the Board of Directors as of December 31, 2014:

Name	Year of Birth	Position
Viktor A. Zubkov	1941	Chairman of OAO Gazprom's Board of Directors
		Russian Special Presidential Representative for Cooperation with Gas Exporting Countries Forum
		Deputy Chairman of OOO Gazprom Gazomotornoe Toplivo's Board of Directors
Alexey B. Miller	1962	Deputy Chairman of OAO Gazprom's Board of Directors
		Chairman of OAO Gazprom's Management Committee

Name	Year of Birth	Position
Andrey I. Akimov	1953	Chairman of the Management Committee of Gazprombank (Joint Stock Company)
Farit R. Gazizullin	1946	Member of OAO Gazprom's Board of Directors
Timur A. Kulibayev	1966	Chairman of the Presidium of the National Chamber of Entrepreneurs of the Republic Kazakhstan Chairman of the Presidium of the Legal Entities Association "National Economic Chamber of Kazakhstan "Atameken" Union" Chairman of the Legal Entities Association "Kazakhstan Association of Oil, Gas and Energy Sector Organizations "KAZENERGY"
Vitaly A. Markelov	1963	Deputy Chairman of OAO Gazprom's Management Committee
Victor G. Martynov	1953	Rector of the Federal State-Funded Educational Institution of Higher Professional Education "Gubkin Russian State Oil and Gas University"
Vladimir A. Mau	1959	Rector of the Federal State-Funded Educational Institution of Higher Professional Education "The Russian Presidential Academy of National Economy and Public Administration"
Valery A. Musin	1939	Head of the Civil Procedure Department, Faculty of Law of the Federal State-Funded Educational Institution of Higher Professional Education "Saint Petersburg State University" Senior Partner of the Russian-British firm "Musin and Partners"
Andrei Yu. Sapelin	1965	First Deputy Chairman – a member of the Management Committee of the State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"
Mikhail L. Sereda	1970	Deputy Chairman of the Management Committee – Head of the Administration of OAO Gazprom's Management Committee

The below table presents the changes in the Board of Directors in 2014:

Name	Changes
Andrei Yu. Sapelin	Elected on June 27, 2014
Elena E. Karpel	Termination of powers on June 27, 2014

In 2014, 63 meetings of the Board of Directors were held (11 in person, and 52 in absentia). During these meetings 174 decisions were made, including 46 decisions at in-person meetings and 128 decisions by voting in absentia.

In 2014, three members of the OAO Gazprom Board of Directors – Valery A. Musin (Chairman), Farit R. Gazizullin and Mikhail L. Sereda – served on the Board of Directors Audit Committee.

During the reporting year, the Audit Committee held five meetings and considered 14 issues.

The table below presents information on members of the Management Committee as of December 31, 2014:

Name	Year of birth	Position
Alexey B. Miller	1962	Chairman of OAO Gazprom's Management Committee

Name	Year of birth	Position
Elena A. Vasilieva	1959	Deputy Chairman of OAO Gazprom's Management Committee – OAO Gazprom's Chief Accountant
Valery A. Golubev	1952	Deputy Chairman of OAO Gazprom's Management Committee
Alexander N. Kozlov	1952	Deputy Chairman of OAO Gazprom's Management Committee
Andrey V. Kruglov	1969	Deputy Chairman of OAO Gazprom's Management Committee – Head of Department (finance and economics)
Vitaly A. Markelov	1963	Deputy Chairman of OAO Gazprom's Management Committee
Alexander I. Medvedev	1955	Deputy Chairman of OAO Gazprom's Management Committee
Sergei F. Khomyakov	1953	Deputy Chairman of OAO Gazprom's Management Committee, General Director of OAO Gazprom's Corporate Protection Service Branch in Moscow
Oleg E. Aksyutin	1967	Head of Department (gas transportation and underground storage)
Nikolay N. Dubik	1971	Head of Department (legal support)
Dmitry V. Lyugai	1962	Head of Department (prospective development)
Vladimir K. Markov	1955	Head of Department (relations with the Russian Federation government authorities)
Elena V. Mikhailova	1977	Head of Department (asset management and corporate relations)
Sergei F. Prozorov	1958	Head of Department (managing construction of production facilities)
Kirill G. Seleznev	1974	Head of Department (marketing, gas and liquid hydrocarbons processing, developing electric power and heat generation), General Director of OOO Gazprom Mezhregiongaz
Igor Y. Fedorov	1965	General Director of OOO Gazprom Komplektatsiya
Vsevolod V. Cherepanov	1966	Head of Department (hydrocarbon exploration and production)

The below table presents information about the changes in the Management Committee in 2014:

Name	Changes
Sergei F. Prozorov	Elected on November 27, 2014
Yaroslav Ya. Golko	Termination of powers on November 27, 2014

Remuneration of the members of the Board of Directors and Management Commitee

Short-term compensation paid to the members of the Board of Directors and Management Committee of OAO Gazprom, the Chairman of the Management Committee in 2014 (including salary, bonuses and remuneration for serving on the management bodies of OAO Gazprom) amounted to RUB 4,393 million. The amount includes personal income tax and insurance contributions. Government officials, who are directors, do not receive remuneration from OAO Gazprom.

The remuneration of members of the Board of Directors is approved by the General Meeting of Shareholders. Short-term remuneration of the Chairman and members of the Management Committee, as well as those members of the Board of Directors who are OAO Gazprom employees, is determined by the terms of their respective employment contracts.

In accordance with Russian law, OAO Gazprom makes contributions to the Pension Fund of the Russian Federation for the benefit of its employees, including the Chairman and members of the

Board of Directors, as well as those members of the Board of Directors who are Gazprom staff employees.

OAO Gazprom also provides voluntary medical insurance for the Chairman of the Management Committee, members of the Management Committee and the Board of Directors who are OAO Gazprom's employees. In 2014, insurance contributions under voluntary medical insurance amounted to RUB 1 million.

Liability insurance for the members of the Board of Directors and the Management Committee

OAO Gazprom provides liability insurance for the members of the Board of Directors (including independent directors but excluding those directors who are government officials) and the Management Committee that ensures the compensation of damage to the shareholders, creditors and other persons incurred as a result of indeliberate erroneous actions (failure to act) of the insured persons when performing management functions.

The amount of insurance is USD 100 million and the amount of premium under the insurance contract concluded in 2014 is USD 1.57 million.

Insurance coverage under the liability insurance contract for the members of the Board of Directors and Management Committee complies with international standards for insurance in terms of the insured risks and indemnity limits.

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

As of December 31, 2014, the total interest of members of the Board of Directors and members of the Management Committee in OAO Gazprom's equity was 0.01%.

Internal control system and internal audit

Objectives, tasks and components of internal control system, principles of its operation and governing bodies of OAO Gazprom and persons responsible for internal control are specified in the Regulation on OAO Gazprom's Internal Controls approved by the Board of Directors' decision of February 25, 2014, No 2315.

The Board of Directors, the Audit Committee of the Board of Directors, the Revision Commission, executive bodies (the Management Committee, Chairman of the Management Committee), heads of other structural subdivisions of OAO Gazprom and the Company's employees are subject to internal control.

The Revision Commission in number of 9 persons is elected by the General Meeting of Shareholders. The Revision Commission's competence is specified by the Federal law "On Joint Stock Companies"; for the issues not specified by the law – by the Charter of OAO Gazprom.

The Internal Audit Division administratively reports to the Chairman of the Management Board and functionally – to the Audit Committee of the Board of Directors. One of its key tasks is providing the Audit Committee and OAO Gazprom management with independent and objective assurance, conclusions based on the results of internal audits, and advice aimed at improving the Company's activities. The Internal Audit Division organizes and performs internal audits of business subdivisions, subsidiaries and organisations of OAO Gazprom. The results of the audits performed are communicated to the Chairman of the Management Committee and on an annual basis - to the Management Committee and the Audit Committee of the Board of Directors.

On an annual basis, OAO Gazprom selects an independent auditor based on open tender results that is held in accordance with the Russian laws.

In 2014, ZAO PricewaterhouseCoopers Audit was recognised as a successful tenderer and was approved as the auditor at the General Meeting of Shareholders of OAO Gazprom on 27 June 2014. The contract price proposed by the successful tenderer amounted to the equivalent of RUB 255,000,000 (less VAT) and was approved by the Board of Director's decision of July 11, 2014, No2384.

ZAO PricewaterhouseCoopers Audit has mandatory rotation of key managers involved in the audit of OAO Gazprom and applies the policy of ensuring independence of its employees in order to avoid impairment of objectivity and as a consequence of audit quality.

Corporate ethics and anti-fraud initiatives

OAO Gazprom has adopted a Code of Corporate Ethics, which incorporates best Russian and foreign practices in the field of corporate governance. This document sets forth the corporate values of OAO Gazprom and defines the key guidelines for business conduct based on these corporate values which exclude any conflicts of interest or corruption.

The Code applies to all employees of OAO Gazprom (including members of the Management Committee and those members of the Board of Directors who are Gazprom employees) and to all legal entities controlled by OAO Gazprom. Application of the Code of Corporate Ethics is recommended for employees of legal entities where OAO Gazprom has a non-controlling interest and for employees of OAO Gazprom's contractors.

Responsibility for initiatives aimed at enforcing the requirements and provisions of the Code of Corporate Ethics has been vested in the standing Corporate Ethics Committee of OAO Gazprom, which was established by OAO Gazprom Order No. 59 of February 11, 2014.

In the reporting year, the Committee organized written acknowledgment of the Code's acceptance by the management of OAO Gazprom; carried out work aimed at implementing the provision of the Code on relatives working together, and relationships with competitors and counterparties, as well as consideration by the Committee of any cases of conflict of interest among the sole executive body of entities controlled by OAO Gazprom. At its meetings, the Committee discussed received communications.

In accordance with Russian Federation law and OAO Gazprom internal bylaws, the Corporate Security Service of OAO Gazprom and the corporate security divisions of subsidiaries carry out anti-corruption activities within the Gazprom Group. This work is performed in close and standing cooperation with such corporate functions as Internal Audit, Corporate Cost Management, and Property and Corporate Relations Management, as well as with Russian Federation law enforcement authorities. OAO Gazprom has had a functioning internal whistle-blower hotline since 2014 for confidential reporting on issues related to controlling corruption, fraud and embezzlement in the Gazprom Group. All reported issues are carefully analysed. No instances of corruption were identified in any situations reported via through the whistle-blower hotline during the reporting year.

RISK MANAGEMENT

OAO Gazprom's risk management system covers all management levels and corporate business lines.

General goals are established at the strategic level. These goals are underlying strategic and target performance indicators according to the key business lines that are set for OAO Gazprom's structural subdivisions and subsidiaries.

The Company's streamlined exchange of information can help to identify risks that negatively impact of the attainment of such goals. It can also be essential in developing respective risk management activities.

Strategic and country-specific risks

Global economic risks

The currently adverse economic environment may result in a slowdown of growth in energy demand coupled with an appreciation of debt capital.

Management /impact on the level of risk. OAO Gazprom is actively diversifying its sales markets and channels to ensure growth in energy demand. The Company's debt burden management policy ensures financial stability, raises its financial profile and streamlines its debt portfolio.

European gas market risks

OAO Gazprom supplies natural gas to countries of the European Union (EU). The EU is now implementing a gas market policy aimed at diversifying its energy sources and enhancing exchange trade of gas.

Management /impact on the level of risk. In its operations, Gazprom continues to rely on its system of long-term contracts to make sure that its supplies to consumers are both secure and flexible. Gazprom has also implemented a set of measures to develop new infrastructure and bolster demand for gas, as well as strengthen the Company's position in sectors that may want to consume larger volumes of gas.

Political risks

In light of the situation in the southeast of Ukraine, the EU, USA and other states have introduced limited economic sanctions against Russia and certain Russian companies. Furthermore, if there is no progress in resolving the crisis in southeast Ukraine or, if the conflict is further escalated, the list of sanctions and restrictive measures will likely be extended.

Management /impact on the level of risk. Progressive expansion and diversification of sales markets.

Transit risks

Gas transit through FSU countries, particularly through Ukraine, Belarus and Moldova, faces the risk of transit default, which may result in Gazprom Group's failure to duly carry out its contract obligations for gas delivery.

Management /impact on the level of risk. To mitigate its exposure to transit countries the Group:

- diversifies export routes;
- expands international UGSF opportunities;
- develops LNG sales.

Russian regulatory risks for the gas industry

OAO Gazprom's operations are subject to the Federal law "On Natural Monopolies".

Management /impact on the level of risk. OAO Gazprom continues an active dialogue with the Russian Government on improvements to the Government's pricing policy in the domestic gas market.

Non-conventional gas production risks

Non-conventional production of gas is continuing to grow in such markets as North and South America, as well as South East Asia.

Management /impact on the level of risk. OAO Gazprom is now eagerly reviewing available opportunities and analysing the economic viability of non-conventional oil and gas production and sale on global markets.

Renewable energy risks

Production of renewable energy will likely grow in some countries, which would, thus, drive gas consumption down on the part of importer countries.

Management /impact on the level of risk. The use of gas, including in power generation, has both economic and technical benefits for consumers. In most cases, renewable energy can help supplement production of energy that uses other resources such as natural gas.

Customs, currency and tax regulatory risks

Risks of changes to currency regulations and tax laws of the Russian Federation

While OAO Gazprom complies with the requirements of tax laws, constantly monitors amendments and alterations to laws and other legal regulatory acts on taxation, assesses and forecasts the extent of their potential implications for its operations, the risk of tax claims against the OAO Gazprom may not be ruled out.

Management /impact on the level of risk. The Group monitors changes in currency and tax legislation and makes every effort to comply with the requirements following the best law application practice. The Company is also committed to mutually beneficial relations with the Russian Government with a view to support national energy security.

Risks related to changes in Russian rules on customs control and duties

As a result of the signing in May 2014 of the Agreement on the Foundation of Eurasian Economic Community (EurAsEC), a new EurAsEC Customs Code is planned be produced. This new document has not been finalised and, therefore, it is still impossible to rule out the risk of additional requirements from the customs authorities if related regulations and export duty payment rules are changed.

Management /impact on the level of risk. The Gazprom Group seeks to adhere to all requirements of customs laws, track amendments to legal regulatory acts at their earlier drafting stages and bring forward its proposals, while interacting with regulatory authorities and interested parties.

Financial risks

Foreign exchange, interest rate and inflation risks

A significant share of the Group’s revenues is denominated in foreign currency, while most of its costs are denominated in roubles. Therefore, changes in exchange rates affect Gazprom’s performance.

Management /impact on the level of risk. Foreign exchange and interest rate risks are naturally hedged by:

- estimating the Gazprom Group's net currency position and balancing OAO Gazprom's cash flows in terms of currency, volumes and receipt/payment dates;
- maintaining a balance of currencies in OAO Gazprom's debt portfolio close to the balance of revenue currencies.

Credit and liquidity risks

Gazprom's operations can be negatively affected by delayed or incomplete discharge of contractual obligations by some counterparties.

Management/impact on the level of risk. The Group implements a transparent policy enforcing contractual obligations related to payments for gas supplies. All counterparties involved in gas supplies to far abroad countries are assigned an internal credit rating. The relations with credit institutions are subject to credit risk limits fixed on a regular basis.

Market risks

The key market risk factors include price risks associated with fluctuations of oil product prices and gas indices underlying the export contract prices, as well as volume risks associated with a certain flexibility that buyers have in terms of gas offtake.

Lower oil prices make gas prices lower too. Further drop in oil prices or their maintenance at the current level for a long time period would reduce the group's income.

Management /impact on the level of risk. The key mechanisms for managing risk include modifying existing, or entering into new, contracts, as well as determining appropriate types of transactions and financial instruments and, accordingly, suitable counterparties to enter into such transactions.

Operating risks of OAO Gazprom

Subsoil license non-renewal risks

Gazprom explores and produces hydrocarbons under subsoil licenses. Most of its licenses may be suspended, altered or revoked in case of non-compliance with the license agreements.

Management /impact on the level of risk. Gazprom complies with the license requirements to mitigate the risk of license revocation, suspension or alteration.

Cost risk

One of the most significant risk factors in investment activities includes increased costs of equipment, technical devices and components, as well as work and services that form the actual costs of capital construction. Such increases can be mainly explained by changes in exchange rates.

Management /impact on the level of risk. The Group holds tenders and selects the suppliers, which offer the lowest contract costs for delivery of adequate goods. This, in turn, helps to reduce costs of raw and other materials, components, work and services.

Facilities risks

The Gazprom Group's key operations, including hydrocarbons production, transportation, refining and storage, carry a wide range of process and engineering, natural and climatic risks, as well as risks of adverse actions by personnel or third parties, including due to human error, embezzlement, terrorist attacks or sabotage.

Management /impact on the level of risk. The UGSS ensures system-wide reliability of gas supplies. Stable operation of the system is achieved by implementing advanced diagnostic methods, and reconstructing and upgrading existing facilities. Property interests of OAO Gazprom's subsidiaries are covered by comprehensive insurance policies. The coverage includes property insurance (including offshore facilities), business interruption insurance for GPPs and liability insurance for construction, repair and operation of production facilities.

Hydrocarbon reserve estimation risks

Accuracy of reserve estimates depends on the quality of available information, as well as on interpretation of engineering and geological data.

Management /impact on the level of risk. The Gazprom Group's reserves estimated under Russian reserves classification standards are recorded in its books only after the annual review and approval by the State Reserves Commission of the Russian Ministry of Natural Resources. Reserve estimation procedures developed and implemented by OAO Gazprom comply with international PRMS standards and involve an independent appraiser.

Environmental risks

Realization of environmental risks may entail legal implications, including suspension of business, financial costs related to penalties and compensation for damages and damage to business reputation.

Management /impact on the level of risk. The Gazprom Group pursues a coherent environmental policy, implementing programs, takes actions to mitigate environmental impact, finances environmental activities and introduces advanced resource- and energy-saving and other environmental protection technologies.

Most subsidiaries of the Gazprom Group have in place and continuously improve environmental management systems certified under ISO 14001:2004.

BRANCHES AND REPRESENTATIVE OFFICES OF OAO GAZPROM

Below is the information on branches and representative offices of OAO Gazprom based on its Charter:

Name	Location
Branch Avtopredpriyatie of OAO Gazprom	Moscow
Branch Corporate Premises Management of OAO Gazprom	Moscow
Branch Bogorodskoye Reception House	Moscow
Branch Souyz Holiday Hotel	Moscow Region
Branch Morozovka Holiday Hotel	Moscow Region
Branch Corporate Security Services of OAO Gazprom	Moscow
Branch Central Interregional Security Division of OAO Gazprom	Moscow Region
Branch North-Western Interregional Security Division of OAO Gazprom	St. Petersburg
Branch Southern Interregional Security Division of OAO Gazprom	Krasnodar
Branch Volga Interregional Security Division of OAO Gazprom	Samara
Branch North Urals Interregional Security Division of OAO Gazprom	Novy Urengoi
Branch South Urals Interregional Security Division of OAO Gazprom	Yekaterinburg
Branch Siberian Interregional Security Division of OAO Gazprom	Tomsk
Branch Far Eastern Interregional Security Division of OAO Gazprom	Khabarovsk
Representative office in Ukraine	Kyiv
Representative office in the Sakhalin Region	Yuzhno Sakhalinsk
Representative office in the People's Democratic Republic of Algeria	Algiers
Representative office in the Islamic Republic of Iran	Tehran
Representative office in Republic of Turkey	Ankara
Representative office in the People's Republic of China	Beijing
Representative office in India	New Delhi
Representative office in the Federative Republic of Brazil	Rio de Janeiro
Representative office in Qatar	Doha
Representative office in Kingdom of Belgium	Brussels
Representative office in Japan	Tokyo
Representative office in Turkmenistan	Ashgabat
Representative office in Republic of Latvia	Riga
Representative office in the Republic of Kazakhstan	Astana
Representative office in Republic of Moldova	Kishinev
Representative office in the Kyrgyz Republic	Bishkek
Representative office in the Republic of Belarus	Minsk

CONVERSION TABLE

Metric measure	U.S. measure
1 bcm of natural gas	35.316 billion cubic feet (bcf) of natural gas
1 bcf of natural gas	0.028 bcm of natural gas
1 metric ton of crude oil	1,000 kilos
	2,204.6 pounds
	7.33 barrels of crude oil
	8.18 barrels of gas condensate
	1.43 ton of fuel equivalent
1 barrel of crude oil	0.1364 metric ton of crude oil
1 kilometre	Approximately 0.62 miles
1 ton of fuel equivalent	866.6 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 mcm of natural gas	5.89 barrels of oil equivalent (boe)
1 ton of gas condensate	8.18 barrels of gas condensate
1 barrel of gas condensate	1 barrel of oil equivalent (boe)

GLOSSARY OF MAJOR TERMS AND ABBREVIATIONS

Terms and abbreviations	Description
Brent	Benchmark brand of oil produced in the North sea
ISO 14001:2004	International Organization for Standardization
ROE	Return on equity
TSR	Total shareholder return
Urals	Russian brand of export oil mixture
Adjusted EBITDA	Earnings before interest, taxes, depreciation, and amortization adjusted by changes in impairment provisions
ADR of OAO Gazprom	American Depositary Receipt issued for OAO Gazprom shares
APG	Associated petroleum gas
APR	Asia-Pacific Region, which includes inland countries of Asia, America and Pacific Ocean Area
Associated undertaking	Associated undertaking is a company over which the Gazprom Group has significant influence – significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of an entity but has no control or joint control over those policies
bcm	Billion cubic meters
boe	Barrel of oil equivalent
bboe	Billion barrels of oil equivalent
BTU	British thermal unit
Category ABC_1 hydrocarbon reserves	Explored reserves, according to the Russian reserves system. Gas reserves in categories ABC_1 are considered to be fully extractable. For reserves of crude oil and gas condensate, a predicted coefficient of extraction is calculated based on geological and technical factors.
Category C_2 hydrocarbon reserves	Category C_2 represents reserves of a deposit the crude oil or gas content of which is calculated on the basis of geological and geophysical data within the known gas areas. Category C_2 reserves are preliminary estimated reserves and represent a basis for exploration work at a particular field.
CCGT	Combined cycle gas turbine
Central Asia	Kazakstan, Kyrgyzstan, Tadjikistan, Turkmenistan, Uzbekistan
Central Europe	Bulgaria, Bosnia-Herzegovina, Hungary, Macedonia, Poland, Romania, Serbia, Montenegro, Slovakia, Slovenia, Croatia, Czech Republic
cf	Cubic feet
CIS	Commonwealth of independent states – former Soviet Union republics except for Latvia, Lithuania and Estonia
cm	Cubic meter of natural gas measured under pressure of 1 bar at the temperature of 20°C
CS	Compressor station
EMS	The Environmental Management System
EU	European Union
EurAsEC	Agreement on the Foundation of Eurasian Economic Community
Europe	For the purposes of the Report includes Western and Central Europe
Europe and other countries	Countries other than Russia and the FSU countries.

Terms and abbreviations	Description
FSU	Former Soviet Union republics, except for the Russian Federation
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
G&G	Geological exploration works
Gazprom Group, Group, Gazprom	An aggregate of entities which includes OAO Gazprom (Head Office) and its subsidiaries
Gazprom Neftekhim Salavat Group	An aggregate of entities which includes Gazprom Neftekhim Salavat (Head Office) and its subsidiaries. The Gazprom Group controls the Gazprom Neftekhim Salavat Group.
Gazprom Neft Group	An aggregate of entities which includes OAO Gazprom Neft (Head Office) and its subsidiaries. The Gazprom Group controls the Gazprom Neft Group.
GPC	Gas Processing Complex
GTS	Gas Transportation System
IFRS	International Financial Reporting Standards accepted in EU
Joint operation	Joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligation for the liabilities, relating to the arrangement. Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly.
Joint venture	Joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. With regards to joint arrangements, where the Group acts as a joint venture, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.
KPI	Key performance indicator
kWh	Kilowatt-hour
LNG	Liquefied Natural Gas
LSE	London Stock Exchange
mboe	Million barrels of oil equivalent
mcm	Thousand cubic meters
mmcm	Million cubic meters
m	metre
MICEX	Moscow Interbank Currency Exchange
MW	Megawatt
Net debt	The sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities, net of cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations
NPZ	Refinery
PRC	Peoples Republic of China
Return on capital employed	Calculated as operating and non-operating profit before interest, net of income tax to the average capital employed. Average capital employed is calculated as the average of total equity and total debt at the beginning and at the end of year.

Terms and abbreviations	Description
RUB	Russian Rouble
PRMS Standards	International classification and assessment of hydrocarbon reserves under PRMS (Petroleum Resources Management System). These standards do not only include the assessment of physical presence of hydrocarbons but also provide the economic viability of recovering the reserves and consider the period of commercial development of fields (term of development license).
SDPP	State district power plant
sq. km	Square kilometer
tcf	Trillion cubic feet
tcm	Trillion cubic meters
ton	Metric ton
Total debt	Long-term and short-term loans and borrowings, long-term and short-term promissory notes, restructured tax payable
TPP	Thermal Power Plant
UGSS	Underground gas storage station
USA	United States of America
UGSF	Underground Gas Storage Facility
UGSS	Unified Gas Supply System of Russia
USD	The United States Dollars
VAT	Value Added Tax
Western Europe	Austria, Andorra, Belgium, Germany, Greece, Denmark, Ireland, Iceland, Spain, Italy, Cyprus, Liechtenstein, Luxembourg, Malta, Monaco, The Netherlands, Norway, Portugal, San Marino, the United Kingdom , Turkey, Finland, France, Switzerland, Sweden
YaNAO	Yamal-Nenets Autonomous District

ADDRESSES AND CONTACTS

Full name: Open Joint Stock Company Gazprom

Abbreviated name: OAO Gazprom

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Web-site: www.gazprom.ru in the Russian language, www.gazprom.com in the English language
E-mail: 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:

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