MANAGEMENT REPORT
OAO GAZPROM
2009

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Notes

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 entities consolidated in the IFRS consolidated financial statements of OAO Gazprom for the year ended 31 December, 2009, 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 annual consolidated financial statements of OAO Gazprom for the year ended 31 December, 2009, prepared in accordance with IFRS.

THE GAZPROM GROUP

The Gazprom Group (OAO Gazprom and its subsidiaries) is one of the world's largest vertically-integrated oil and gas companies (hereafter Gazprom, the Group). Gazprom has the right for development of one fifth of world's gas reserves and provides for one sixth of its world production, being rated the first among oil and gas companies. In Russia Gazprom provides for approximately 80% of gas production and 9% of oil and gas condensate production. The Group carries out field search and exploration projects in more than ten countries of the world.

The Group is the sole owner of the world's largest gas transportation network with length of more than 160 thousands kilometers, which provides gas supply to customers within Russia and access of natural gas to the European markets. Approximately a half of the gas refining in Russia and 13% of oil refining is attributable to Gazprom.

Gazprom is the dominant gas supplier to Russian market and accounts for approximately 70% of the natural gas demand of other former Soviet Union (FSU) countries, besides the Group supplies approximately a quarter of natural gas consumed in Europe. The Group has branched network of fuel stations of more than 1,500 in Russia, FSU and on Balkans. The Group also owns electricity generating assets, which provide approximately 16% of the electricity generation in Russia.

Major operational and financial parameters of the Gazprom Group for 2008 and 2009 are presented in the tables below.

	As of and for the year ended 31 December, 2009	2008	Change
Reserves of hydrocarbons under SPE-PRMS Standards			
Proved and probable gas reserves, trillion cubic meters (tcm)	21.9	21.2	3.3%
Proved and probable crude oil and gas condensate reserves, million tons	1,881.2	2,008.0	– 6.3%
Proved and probable reserves of hydrocarbons, bboe	143.5	140.2	2.4%
Operating indicators			
Gas production, billion cm	461.5	549.7	– 16.0%
Crude oil and gas condensate production, million tons	41.7	42.9	– 2.8%
Hydrocarbon production, million boe	3,032.5	3,561.5	– 14.9%
Oil and gas condensate refining, million tons	44.5	40.1	11.0%
Electricity generation, billion kilowatt-hour (kWh)	138.5	109.3	26.7%
Statement of Comprehensive Income highlights (RR million)			
Sales	2,990,971	3,285,486	– 9.0%
Operating profit	856,912	1,260,306	– 32.0%
Profit for the year attributable to owners of OAO Gazprom	779,585	742,928	5%
Adjusted EBITDA	1,089,951	1,463,805	– 25.5%
Balance Sheet highlights (RR million)			
Cash and cash equivalents	249,759	343,833	– 27.4%
Total debt	1,625,705	1,365,764	19.0%
Net debt	1,372,307	1,018,346	34.8%
Equity, including non-controlling interest	5,645,946	4,913,099	14.9%
Ratios			
Net earnings per share for profit attributable to the owners of OAO Gazprom, RR	33.18	31.49	5.4%
Total debt to equity, including non-controlling interest	0.29	0.28	3.6%
Adjusted EBITDA to interest expense	14.7	24.43	– 39.8%
Return on invested capital	0.26	0.22	18.2%

Current situation on internal and external financial markets

As a result of changes in economic conditions, caused by global financial crisis, significant uncertainty is being observed in Russian banking sector and wider economy. Financial crisis led to bankruptcies of banks and need to undertake measures to rescue banking systems in USA, Western Europe and Russia. Continuing uncertainty on financial markets may influence the situation on major markets of Group's presence, its operating results, conditions of new loans and refinancing of existing loans on previous terms. Current situation on internal and external financial markets may also impact debtors (borrowers) of the Group, in particular on their ability to redeem debts.

Changes in economic conditions may influence medium-term cash flows forecast and assessment of impairment reserves for financial and non-financial assets.

Currently, the Group's management is unable to estimate reliably the impact of the recent changes in finance and economic sphere on the Group's financial position. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

Measures undertaken by the Group's management under the conditions of the world finance and economic crisis

In December 2008 the Board of Directors of OAO Gazprom approved the main principles of financial strategy, implemented to ensure the stable financial condition of OAO Gazprom in the circumstances of deepening recessionary tendencies on world financial markets.

In 2009, based on the analysis of decrease in forecasted demand for gas in Russia and Europe, the decision was made on rescheduling the commissioning dates for certain gas extraction assets and respective reduction of capital expenditures. In particular, it was decided to move the commissioning dates for Bovanenkovskoye field and Bovanenkovo – Ukhta trunk pipeline system from III quarter 2011 to III quarter 2012.

Within the framework of creating the centralized liquidity management system, 41 subsidiaries and 14 branches of OAO Gazprom were linked to the unified intercompany cash pool. Also, OAO Gazprom has taken certain measures for the purposes of working capital management.

In 2009 OAO Gazprom raised the external long-term financing for the needs of its subsidiaries on a centralized basis. Also, the strategy on the currency risk management was developed on the basis of hedging instruments, other than forward deals. Interaction was ensured between OAO Gazprom and its major subsidiaries: OAO Gazprom neft, OOO Mezhregiongaz, OOO Gazprom Export, OOO Gazprom Komplektatsia – when arranging the risk management system.

Implementation in 2009 of key arrangements related to the anti-crisis financial strategy allowed to ensure the sufficient cash inflow, liquidity and financing for the major projects, to maintain high efficiency and profitability of the Group's core operations.

ROLE OF THE NATURAL GAS

Major operations of the Group are with natural gas. The role of natural gas as key source of the world economy development continues to increase. Despite the reduced global energy consumption in 2009 (approximately by 2%) due to the global financial crisis, the global demand for energy is expected to increase along with increased number of population and industrial production growth in the developing countries, and by 2030 it is expected to reach 16.8 billion tons of oil equivalent (by 40% above current level), the power industry will account for the major part of the growth (increase by 54%).

World energy sector has different capacities to increase the production of primary energy sources that will meet the growing demand of the economy. In particular, the development of hydropower is limited by natural conditions, of nuclear power – by high investment costs, the need to recycle nuclear waste and public concern about the safety of nuclear power facilities. The perspective of a wide replacement of fossil fuels by biological fuel is currently being reassessed as biofuel is produced on arable lands, which leads to higher prices of grain and food products.

The mass use of renewable (clean) energy (wind power, solar power, geothermal sources, tidal power) is limited by the current level of technological development which does not allow yet to reduce the cost of renewable power and eliminate its dependence on weather and climate conditions.

Therefore, the main burden of satisfying the growing power consumption will lie on fossil fuels, including natural gas which has the best perspectives. Gas reserves significantly exceed the forecasted demand for the period up to 2030 and its use in power industry will lead to reduced emissions of CO_2 and other polluting agents as compared with the use of coal and oil based fuel; gas ensures a higher efficiency factor, helps to reduce initial capital investments as well as implementation and payback periods of investment projects.

OPERATING RESULTS

Reserves, exploration and production of hydrocarbons

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

	As of 31 December,	
	2009	**2008**
Gas production		
Assets, million RR	1,438,222	1,163,367
Share in total assets of the Group	16.6%	15.0%
Oil and Gas Condensate Production		
Assets, million RR	1,122,449	1,187,681
Share in total assets of the Group	13.0%	15.3%

	Year ended 31 December,	
	2009	**2008**
Gas production		
Capital additions, million RR	218,921	220,213
Share in capital additions of the Group	33.1%	31.9%
Oil and Gas Condensate Production		
Capital additions, million RR(1)	84,749	84,548
Share in capital additions of the Group	12.8%	12.3%

Note:

(1) The amount is delivered from Note 7 Segment Information of IFRS consolidated financial statements of the Group.

Reserves

The Group estimates its hydrocarbon reserves in accordance with the SPE-PRMS Standards. As of 31 December, 2009 the evaluation covered 89%, 78% and 85% of natural gas, gas condensate and crude oil reserves, respectively, under ABC_1 classification accepted in Russia. According to the estimate the proved and probable reserves of the Group total 21.9 tcm of natural gas, 727.2 million tons of gas condensate, 1,154.0 million tons of crude oil, for a total of 143.5 bboe. The present value of Gazprom Group's hydrocarbon reserves is assessed at U.S.$241.4 billion.

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

		As of 31 December, 2009	2008
Gas			
Share of ABC_1 reserves covered by the assessment under SPE-PRMS Standards (1)		89%	88%
Proved (2)			
	tcm	18.6	18.2
	tcf	656.9	642.8
Probable (2)			
	tcm	3.3	3.0
	tcf	116.5	105.9
Proved and probable (2)			
	tcm	21.9	21.2
	tcf	773.4	748.7
Gas condensate			
Share of ABC_1 reserves covered by the assessment under SPE-PRMS Standards (1)		78%	85%
Proved			
	million tonnes	586.0	587.9
	billion barrels	4.8	4.8
Probable			
	million tons	141.2	141.9
	billion barrels	1.2	1.2
Proved and probable			
	million tons	727.2	729.8
	billion barrels	6.0	6.0
Oil			
Share of ABC_1 reserves covered by the assessment under SPE-PRMS Standards (1)		85%	92%
Proved			
	million tons	718.5	713.1
	billion barrels	5.3	5.2
Probable			
	million tons	435.5	565.1
	billion barrels	3.2	4.1
Proved and probable			
	million tons	1,154.0	1,278.2
	billion barrels	8.5	9.4
Total			
Share of ABC_1 reserves covered by the assessment under SPE-PRMS Standards (1)		89%	88%
Proved			
	billion tons of fuel equivalent	23.3	22.9
	bboe	119.7	117.2
Probable			
	billion tons of fuel equivalent	4.7	4.5
	bboe	23.8	23.0
Proved and probable			
	billion tons of fuel equivalent	28.0	27.3
	bboe	143.5	140.2

Notes:

(1) The ABC_1 classification accepted in Russia is based on analysis of geological parameters of reserves and evaluates the actual hydrocarbon reserves. SPE-PRMS Standards take into account not only the probability of hydrocarbon deposition in geological formations but also the economic feasibility of extraction of reserves, determined based on exploration and drilling costs, operating expenses for production and transportation, taxes, hydrocarbon selling prices and other factors. Thus, SPE-PRMS information about proved and probable reserves of the Group can not be used for evaluation of reserves that were not subject to SPE-PRMS evaluation.

(2) For OAO «Gazprom neft» and its subsidiaries (Gazprom Neft Group) commercial gas reserves were accounted for, including proved and probable reserves of 0.1 tcm and 0.2 tcm as of 31 December, 2009 and 2008, respectively. For other companies of the Group gas separation reserves were taken into account.

Comparing to the assessment made as at 31 December, 2008, the Group's proved and probable reserves increased by 3.3 bboe, this is mainly explained by the inclusion into the estimate under SPE-PRMS Standards the Kruzenshternsky field with the total proved and probable natural gas reserves of 1,189 bcm or 7 bboe.

As of 31 December, 2009 the Group had licenses for ABC_1 hydrocarbon reserves development in the following volumes: 33,578.4 bcm of natural gas, 1,325.1 million tons of gas condensate and 1,785.0 million tons of crude oil, for a total of 221.7 bboe.

As of 31 December, 2009 the Group's share in the ABC_1 reserves of associated companies was 917.2 tcm of natural gas, 714.9 million tons of liquid hydrocarbons, for a total of 10.7 bboe.

The following table sets forth changes to the Group's ABC_1 reserves of natural gas, gas condensate and oil in the licensed areas in Russia in 2009:

	Gas, bcm	**Gas condensate, million tons**	**Oil, million tons**	**Total, million bboe**
Reserves as of 31 December, 2008	**33,123.2**	**1,287.1**	**1,601.7**	**217,364.6**
Including share of non-controlling shareholders	**457.3**	**0.8**	**211.2**	**4,248.1**
Additions to reserves as a result of exploration	468.8	38.55	57.5	3,498.0
Transfer of reserves discovered in 2009 to the Undistributed Subsoil Fund of Russia (1)	(41.2)	(1.3)	(5.85)	(296.2)
Receipt of licenses, including	1.6	0.05	2.5	28.2
due to opening new fields	-	-	-	-
as a result of tenders	1.6	0.05	2.5	28.2
Return of licenses	(10.4)	-	(0.05)	(61.6)
Acquisition of assets	580.8	65.1	107.1	4,738.5
Disposal of assets	(0.6)	-	-	(3.5)
Revaluation	(81.8)	(57.1)	53.6	(556.0)
Production (including losses)	(462.0)	(7.3)(2)	(31.5)	(3,011.8)
Reserves as of 31 December, 2009	**33,578.41**	**1,325.1**	**1,785.0**	**221,700.2**
Including share of non-controlling shareholders	**832.4**	**32.1**	**98.5**	**5,887.4**

Notes:

(1) Under the law of the Russian Federation, 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) Any changes in gas condensate reserves due to production are recognized as converted into stable gas condensate (C5+). The production volume of unstable gas condensate of Gazprom Group in 2009 was 10.1 million tons.

As compared with 2008 the ABC_1 hydrocarbon reserves of Gazprom Group increased in 2009 by 455.2 bcm of natural gas, 38.0 million tons of gas condensate and 183.3 million tons of oil which is the equivalent of 4,335.6 bboe, primarily as a result of exploration works and assets acquisition.

As of 31 December, 2009 and 2008 hydrocarbon reserves related to the Group's foreign projects amounted to less than 1% of the ABC_1 hydrocarbon reserves of the Group in Russia, as at the respective dates.

Exploration

The exploration work in Russia resulted in the increase of reserves by 468.8 bcm of natural gas and 96.1 million tons of crude oil and gas condensate. Recovery of natural gas reserves was 101.5%, of crude oil and gas condensate – 247.7%.

The following table shows summary information on exploration work at licensed areas of Gazprom Group (without volumes of Naftna Industrija Srbije a.d. (NIS) reserves located out of Russia territory):

	Year ended 31 December, 2009	
	In Russia	**Abroad**
Total financing of exploration, RR billion	49.0	16.0
including expenses posted to capital investments	25.3	5.2
Exploration drilling, thousand meters	163.7	30.7
Completed exploration wells, units	75	10
including successful wells	43	2
Seismic exploration 2D, thousand line km	14.7	12.5
Seismic exploration 3D, thousand km^2	9.5	3.6
Drilling throughput		
tons of fuel equivalent / m	4,143.8	-
boe /m	21,368.6	-

The main increase of C_1 natural gas reserves relates to the Shtockman field of the Barents Sea shelf - 192.3 bcm of natural gas and 24.0 million tons of gas condensate; the main increase of oil reserves relates to the Priobskoe and Zimnee fields.

In 2009 OAO Gazprom amended its geological exploration program for the period up to 2030, which determined major directions of exploration works and licensing activity of the Group (without Gazprom Neft Group) in Russia - overall increase by 2030 of explored reserves in Russia as a result of exploration works is estimated at 18.0 billion tons of fuel equivalent. Moreover, increase of reserves by 3.64 billion tons of fuel equivalent is planned to be achieved on the territories of foreign countries.

In Russia the exploration work is planned in regions where the Group has its oil and gas production, the most important of which are the Nadym-Pur-Tazovsky region in western Siberia and the Caspian oil and gas bearing provinces in southern Russia, as well as other promising gas production regions, such as the Yamal Peninsula in western Siberia, the Russian sea shelf of the Arctic seas, eastern Siberia and Far East.

The Group also intends to expand its reserves outside of Russia and participates in exploration projects in various countries and regions of the world, including Algeria, Bolivia, Venezuela, Vietnam, India, Libya and countries of Central Asia. In 2009 exploration work was carried out primarily in the Ustyurtsky region of Uzbekistan and on the shelf of Vietnam.

Licensing

One license was obtained under the pre-emptive right, two licenses were obtained based on tender results and four - without tenders in 2009 in Russia. Costs of license acquisition totalled RR 1.4 billion.

Under the Russian Government decision OAO Gazprom obtained four licenses for a number of fields of federal importance on the Sea of Okhotsk shelf: Kirinsky, Ayashsky, East-Odoptinsky, West Kamchatsky without tender in 2009. Their total area exceeds 55 thousand square kilometres, forecasted reserves of gas amount to 3.0 tcm, of oil – about 1.0 billion tons.

Acquisition of assets that resulted in the increase of controlled reserves and production capacities

In February 2009 the Group obtained control over NIS, involved in exploration and production of oil and natural gas in Serbia.

In September 2009 the Group acquired a 51% interest in OOO SeverEnergia and obtained control over the company. As of 31 December, 2009 OOO SeverEnergia's subsidiaries held licenses for exploration and production of 580.3 bcm gas reserves and ABC_1 category reserves of oil and gas condensate of 157.8 million tons in Western Siberia.

In 2009 Gazprom Neft Group consolidated the controlling interest in Sibir Energy plc (Sibir Energy). The subsidiaries of Sibir Energy held rights to explore the ABC_1 category reserves of gas amounting to 1 bcm and of oil amounting to 14 million tons as of 31 December, 2009, and a 50% interest in Salym Petroleum Development that owned ABC_1 category reserves of gas and oil totalling 3 bcm and 93 million tons as of 31 December, 2009, respectively.

Revaluation

In 2009 as a result of the revaluation the amounts of reserves in the territory of Russia decreased by 81.8 bcm for gas and by 57.1 million tons for gas condensate primarily due to changed volumetric parameters in the calculation of reserves in the Urengoy field. The oil reserves increased by 53.6 million tons primarily due to the changed oil recovery factor.

Production

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

	Natural and associated gas (1), bcm	**Unstable condensate (2), million tons**	**Oil, million tons**	**Total, million boe**
Year ended 31 December, 2009				
Production of Gazprom Group	461.5	10.1	31.6	3,032.5
Share of Gazprom Group in the production of associated companies	13.6	1.2	19.2	230.7
Year ended 31 December, 2008				
Production of Gazprom Group	549.7	10.9	32.0	3,561.5
Share of Gazprom Group in the production of associated companies	11.0	0.7	16.3	189.9

Notes:

(1) Net of losses incurred in production of natural and associated gas.

(2) Volume of unstable gas condensate extracted from subsoil. In the Russian classification gas condensate reserves are assessed by recalculation to stable gas condensate. In stable condensate terms production of the Group was 7.3 million tons in 2009 as compared with 8.0 million tons in 2008.

In 2009 the Group's natural gas production was significantly affected by the decreased demand for gas in principal markets due to the global financial crisis. In 2009 the Group's production was 461.5 bcm, this is by 16.0% lower as compared to 549.7 bcm produced in 2008. The first half year witnessed a severe reduction in gas production which was only 216.4 bcm or 25.2% lower than for a similar period of 2008 when it was 289.2 bcm. In order to prevent any decrease in producing capacity the production was restricted in the fields where production was at initial stages and which had some spare reservoir energy. Fields with liquid hydrocarbons and low output fields were operated in standard regimes. The results evidence the availability of a sufficient degree of safety and high flexibility of the production cycle in the circumstances of gas demand high volatility. The key markets demand followed by the Group's production started to recover from the middle of 2009.

The reduction in the Group's production of oil and gas condensate was not so significant in Russia in 2009 – 1.3% and 7.3% respectively as compared with 2008.

NIS, a foreign subsidiary that joined the Group in February 2009, produced 0.7 million tons of oil and 0.22 bcm of associated gas for the period starting from its consolidation.

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

	As of 31 December, 2009	2008	Change
Developing fields	121	122	– 0.8%
Gas production wells	7,310	7,214	1.3%
including active	6,774	6,723	0.8%
Oil production wells	6,158	5,932	3.8%
including active	5,663	5,444	4.0%

Main areas of capital expenditures

The main investments in the Group's gas production segment in 2009 are allocated to the development of the Bovanenkovskoye field, semisubmersible drilling rig under Shtokman project, development of gas condensate deposits of Zapolyarnoe field, the second pilot section of the Achimov formation, construction of two compressor stations for utilization of the associated gas in the Urengoiskoye field and development of the Kharvutinskaya area of the Yamburgskoye field. In 2009 Gazprom Group put into operation 64 new gas production wells in Russia.

In 2009 main areas of capital expenditures in oil production included the Prirazlomnoye, Priobskoye, Vyngapurovskoye and Yety-Purovskoye fields. In total in 2009 the Group put into operation 680 new oil production wells in Russia.

Sale of oil and gas condensate

In 2009 the Group sold 22.5 million tons of oil and stable gas condensate (23.9 million tons – in 2008).

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

In 2009 global oil prices were growing. The minimum price for BRENT crude oil was U.S.$39 a barrel on 18 February, 2009 and the maximum price was U.S.$80 a barrel on 1 December, 2009. In 2009 the average monthly price for BRENT crude oil was U.S.$61.67 a barrel and as of 31 December, 2009 the price was U.S.$77.67 a barrel. The following table shows average monthly prices for BRENT and URALS crude oil in 2009 as per Platt's agency:

Oil grade	January	February	March	April	May	June
			U.S.$ per barrel			
BRENT (1)	43.59	43.07	46.54	50.34	57.48	68.55
URALS (2)	43.14	42.47	45.32	48.91	57.12	68.34
Spread URALS to BRENT	0.45	0.60	1.22	1.43	0.36	0.21

Oil grade	July	August	September	October	November	December
			U.S.$ per barrel			
BRENT (1)	64.61	72.83	67.39	72.75	76.66	74.28
URALS (2)	64.64	72.15	67.21	72.66	76.28	73.85
Spread URALS to BRENT	-0.03	0.68	0.18	0.09	0.38	0.43

Notes:

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

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

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

(million tons)	Year ended 31 December, 2009 [1]	2008 [1]	Change
Russia	3.2	3.9	– 17.9%
incl. Gazprom Neft Group	0.3	0.9	– 66,7%
FSU	3.3	3.3	0%
incl. Gazprom Neft Group	3.3	3,3	0%
Europe and other countries	16.0	16.7	– 4.2%
incl. Gazprom Neft Group	15.6	16.3	– 4.3%
Total	**22.5**	**23.9**	**– 5.9%**

Note:

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

The reduction in oil and gas condensate volumes sold to Europe and other far abroad countries is primarily explained by the reduced demand in the external markets. In 2009 the domestic sales of oil and gas condensate of Gazprom Group decreased from 16.3% in 2008 to 14.2% in 2009 due to supply of feedstock to the Group's own refineries.

Reporting year and subsequent events

In January 2009 subsidiary of Gazprom Group - Gazprom EP International B.V. (former Gazprom Netherlands B.V.) and Algerian State Oil and Gas Corporation Sonatrach signed the Agreement on the assignment of rights to exploration and production of hydrocarbons in the terrestrial area of El Assel located in the Berkin basin in Algeria. Gazprom's share in the project is 49%.

In April 2009 the Group acquired from ENI S.p.A. an additional 20% interest in OAO Gazprom neft for U.S.$4.1 billion (approximately RR 138 billion). As a result of this acquisition the Group's interest in OAO Gazprom neft increased to 95.68%.

In October 2009 the Group completed the agreement with E.ON Ruhrgas AG to swap 25% share in OAO Severneftegazprom less three ordinary shares, three preference shares without voting right of OAO Severneftegazprom and a preference share in ZAO Gazprom YRGM Development. In exchange the Group received 49% share in ZAO Gerosgaz, which led to the increase in OAO Gazprom's treasury shares by an additional 2.93%.

In December 2009 OAO Gazprom neft being the operator of the international consortium (the share of 30%), won the tender for the development of the Badra field in Iraq with oil reserves of over 2 billion barrels. Over a period of seven years the field shall have production of 8.5 million tons per annum. In addition, Gazprom Neft Group in the framework of a strategic cooperation with the Italian concern ENI S.p.A. plans to participate in the development of the Libyan oil field Elephant with oil reserves of about 210 million tons. In 2009 the terms of exploration works under the Product Sharing Agreement were agreed for the shelf of the Equatorial Guinea. The contract is expected to be signed in the middle of 2010.

In February 2010 the Group commenced the production of methane from coal seams in the Kemerovo region in the Eastern Siberia for the first time in Russia. The project is implemented by OOO Gazprom dobycha Kuznetsk, a 100% subsidiary of the Group. In the boundaries of the Group's licensed mining allotment the methane resources approximate 6 tcm. In 2009 seven exploration wells were drilled and pilot extraction was commenced under the project. Total well production rate as of the end of 2009 was about 10 thousand cubic meters. The commercial production of gas in the region in the amount of 4 bcm per year is expected to start after 2015.

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

The declining demand for gas on domestic and foreign markets due to the global financial crisis requires that in the mid-term the Group should decrease the production of natural gas at its operating capacities. However, the Group's long-term forecasts of demand in its major markets are based on a conservative approach, therefore, no changes were made in 2009 in the long-term strategic goals and projects of the Group. Subject to consumer demand in Russia and favorable conditions on international market by 2020, annual gas production may amount to 650-670 bcm.. In order to reach these levels, the Group intends to develop new strategic fields in the Yamal Peninsula in Western Siberia, the Russian arctic sea shelf, in Eastern Siberia and Far East. It is also planned to develop exploration and production projects abroad.

In 2009 the increase in the Group's interest in OAO Gazprom neft up to 95.68% allowed to concentrate oil development activities of the Group in one subsidiary undertaking. The Group intends to increase the oil production to 100 million tons per year by 2020, including results of its subsidiaries and its share in associated companies. The Group plans to achieve this target gradually by putting on stream explored oil fields and by expanding the development of other liquid hydrocarbon reserves of its gas production subsidiaries. It is planned to expand the Gazprom Group's activities in the development of hydrocarbon reserves abroad so that they account for approximately 10% of the total oil production by 2020.

Transportation of gas

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

	As of 31 December,	
	2009	**2008**
Assets, million RR	3,323,087	3,354,775
Share in total assets of the Group	38.5%	43.4%

	Year ended 31 December,	
	2009	**2008**
Capital additions, million RR	231,723	227,485
Share in total capital additions of the Group	35.1%	33.0%

Gas transportation system

In Russia OAO Gazprom owns the largest gas transportation system (GTS) in the world forming part of Unified Gas Supply System (UGSS) and can provide an uninterrupted long distances gas supply to customers in Russian Federation and abroad.

As of 31 December, 2009 the total length of the GTS UGSS was 160.4 thousand km and included 215 compressor stations on the pipelines with a total capacity of about 42.0 thousand MW.

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

	As of 31 December, 2009	
	Length, km	**Share**
Up to 10 years	15,784.9	9.8%
11 - 20	29,404.6	18.3%
21 - 33	71,313.2	44.5%
Over 33	43,867.0	27.4%
Total	**160,369.7**	**100%**

The Group is continually working to improve the reliability and efficiency of the GTS. There have been no major interruptions of gas supplies caused by any failure or fault of the system over the last 10 years. As a result of the regular pipeline repairs, advanced maintenance and diagnostic technology, the incidence of technical faults that involve interruptions or restrictions of gas supply are maintained at a low level. In 2009 14 technical faults of GTS were registered (0.09 faults per 1,000 km) as compared with 20 faults in 2008 (0.13 faults per 1,000 km).

In 2009 the gas transportation system transported 589.7 bcm of natural gas (714.3 bcm in 2008). Gas volumes transported for independent gas suppliers (outside Gazprom Group) reduced from 111.2 bcm in 2008 to 60.0 bcm. Major independent gas suppliers were OAO NOVATEK (38%) and OOO Itera (28%). The change in the volumes for the reporting year as compared with the prior year is primarily explained by reduced gas consumption in Russia and abroad.

In 2009 the average length of transportation was 2,504 km for domestic supplies and 3,292 km for export supplies.

Volumes of natural gas used for own technical needs of the GTS were 36.3 bcm of natural gas for the years ended 31 December, 2009 (49.6 bcm of natural gas for the years ended 31 December, 2008). The Group assesses the level of gas losses as low and the level of gas consumed as fuel as satisfactory.

The Group's gas transportation assets outside Russia are presented mainly by the part of Yamal-Europe pipeline on the territory of Republic of Belarus and the gas transportation system in the Republic of Armenia. As of 31 December, 2009 the Group's gas transportation assets outside Russia included 2.5 thousand km of trunk pipelines and five compressor stations with a total capacity of about 416 MW.

Main areas of capital expenditures

In 2009 the main capital expenditures in the Group's gas transportation segment are allocated to the construction of the Bovanenkovo-Ukhta, Gryazovets-Vyborg trunk pipelines (Gryazovets-Vyborg is supposed to fill up Nord Stream pipeline), Pochinki-Gryazovets, Sakhalin – Khabarovsk – Vladivostok and a gas pipeline from the Sobolevsky region to Petropavlovsk-Kamchatsky. 865 km of gas pipelines and two compressor stations with a total capacity of 252 MW were put into operation

Reporting year and subsequent events

Within the framework of the Nord Stream project the permits were received from countries through territorial waters or exclusive economic zones of which the pipeline route is laid. In particular from Denmark the permit was obtained in October 2009, from Sweden and Finland – in October 2009, from Russia and Germany – in December 2009. In February 2010 Finland issued the last permit for the works in its water area. Therefore, Nord Stream AG that is implementing the project has received all the permits required for commencing the gas pipeline construction.

In 2009 the Group and ENI S.p.A. adopted the decision to increase the design capacity of the sea section of the South Stream pipeline from 31 to 63 bcm per year. Contracts were signed with countries participating in the project and actions were taken to establish project companies. In addition, in November 2009 OAO Gazprom and the French company EDF SA signed the memorandum of understanding which provides for EDF SA's potential participation in the construction of the South Stream offshore pipeline section.

Development plans for the Transportation of Gas segment

To ensure reliable gas supply to the domestic market and to fulfill its contracted export obligations the Group is involved in the construction of new transportation capacities. The priority is given to the construction of the following gas pipelines in the territory of Russia: the pipeline SRTO – Torzhok, Bovanenkovo – Ukhta and Ukhta – Torzhok for transportation of gas from the Yamal peninsula fields; the pipeline Gryazovets – Vyborg for transportation of gas to the Nord Stream pipeline and to supply gas to customers of the north-west region of Russia; and the pipeline Pochinki – Gryazovets. Priority foreign projects include construction of the Nord Stream pipeline from Russia to Germany under the Baltic Sea and the South Stream pipeline from Russia to South European countries under the Black Sea.

Gazprom's long-term objectives include the development of gas infrastructure in Eastern Siberia and the Far East. At present the following projects are under way: the construction of the gas transportation system Sakhalin – Khabarovsk – Vladivostok, the gasification of the Irkutsk oblast, the construction of the gas pipeline from the Sobolevsky region to Petropavlovsk-Kamchatsky for the development of gas supply system of the Kamchatsky region.

Underground gas storage

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

	As of 31 December,	
	2009	**2008**
Assets, million RR	125,069	119,285
Share in total assets of the Group	1.4%	1.5%

	Year ender 31 December,	
	2009	**2008**
Capital additions, million RR	9,549	8,224
Share in total capital additions of the Group	1.4%	1.2%

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

Underground gas storages in Russia and abroad

As of 31 December, 2009 the Group owns and operates 25 Underground Gas Storage facilities (UGSF) in the territory of Russia with total volume of active gas amounting to 65.2 bcm and potential maximum daily capacity of 620 million cm. During the period of peak load, this network of underground storages ensures about 20% of gas supply to Russian consumers and for export, and in the days of quick freeze this figure reaches 30%.

The Group also controls one UGSF in the Republic of Armenia, active capacity of which amounts to 0.1 bcm as of 31 December, 2009.

For the purpose of increasing reliability of export sales, the Group uses gas underground storage facilities on a lease basis in the territory of Austria (UGSF Haidach), Latvia (Inchukalnskoye UGSF), Germany (UGSF Reden), UK (UGSF Humbly Grove), France (UGSF capacity of Vitol); it also participates in the construction of new gas underground storage facilities in Europe.

By the beginning of the heating season of 2009-2010 the Group created gas reserves in gas underground storages amounting to 64.0 bcm. In 2009 15.7 bcm of gas were pumped into the underground gas storages in Russia and 30.0 bcm were withdrawn. For the first time ever, due to temporary termination of the transit of Russian gas through the gas transportation system of Ukraine in January 2009, a number of UGSF were switched over to the winter gas pump-in regime. In 2009 gas pumped into the underground gas storages outside Russia amounted to 2.5 bcm and gas pumped out – to 3.1 bcm.

Main areas of capital expenditures

The Group is currently constructing two underground gas storage facilities in Russia – Volgogradsky UGSF and Kaliningradsky UGSF with the active gas volume of 1.1 bcm; in addition, the joint project is under way aimed at expanding the capacity of UGSF Haidach in Austria from 1.2 bcm to 1.72 bcm. In 2009 the capital investments in underground gas storages were primarily allocated to the construction of the Kaliningradsky UGSF, expansion of Nevskiy UGSF and reconstruction of Kaluzhskiy and Sovkhozniy UGSF.

Reporting year events

In March 2009 the agreement was signed with MOL Plc on the establishment of a joint venture for implementing the Pusztafoldvar UGSF project in Hungary, with the active capacity of 1.3 bcm.

In May 2009 the agreement was signed with Verbundnetz Gas AG on construction and operation of the Katharina UGSF in Germany with the active capacity of 600 million cm.

In August 2009 the agreement was signed with the consortium of investors on storage of gas in the Netherlands under which the Group will receive 1.9 bcm of UGSF active capacity.

In October 2009 the agreement was signed with JP Srbijagas on establishment of a joint venture for the construction and operation of the Banatsky Dvor UGSF with the active capacity of 450 million cm.

Development plans for the Gas Storage segment

The Group is developing the Underground Gas Storage Development Program in Russia for the period 2011-2020 targeting at the daily pumping out capacity of up to 1.0 bcm.

The Group intends to develop the system of underground gas storage in European countries in order to strengthen its positions in the European markets of natural gas as well as to enhance reliability and flexibility of its gas supplies.

Gas distribution

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

	As of 31 December,	
	2009	**2008**
Assets, million RR	874,339	779,763
Share in total assets of the Group	10.1%	10.1%

	Year ended 31 December,	
	2009	**2008**
Capital additions, million RR	27,185	34,701
Share in total capital additions of the Group	4.1%	5.0%

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

(bcm)	**Year ended 31 December,**		**Change**
	2009	**2008**	
Russia	273.5	292.2	– 6.4%
FSU [(1)]	56.7	96.5	– 41.2%
Europe and other countries [(1)]	152.8	167.6	– 8.8%
Total	**483.0**	**556.3**	**– 13.2%**

Note:

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

The global economy crisis accompanied by declined industrial production and energy consumption in the Group's main sale markets resulted in the decline of the Group's gas sales in 2009. In particular, overall gas consumption in Europe according to Group estimates reduced by 7%. This coincided with a significant increase in gas liquefaction/re-gasification capacities and the growth of LNG supply (due to reduced LNG import by the USA) which has only increased the imbalance of demand and supply in the European gas market.

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

The Group's performance is heavily reliant on natural gas prices on sales to Europe and other countries. U.S.$ prices for natural gas decreased in 2009 compared to 2008. The prices of our natural gas deliveries to Europe and other countries are basically linked to the global oil products prices. However, due to the six to nine months time lag embedded in the price formulas, our natural gas export prices exercise less volatility compared to the global crude oil prices.

Gazprom and gas buyers in Europe and other countries are bound by the system of long-term contracted obligations. Long-term contracts are in fact service contracts that provide the buyer with daily flexibility, differential supply volumes during the year and stipulate the seller's obligation to subsequently replenish the buyer with volumes that were paid by the buyer under "the take or pay" conditions. In addition, long-term contracts provide the buyer with guaranteed supplies of gas for a long period of time. This results in a different scope of risks and different prices for gas under long-term and spot contracts.

When the gas demand and supply balance in the European market changed and gas spot prices dropped significantly compared to gas prices under long-term contracts that are linked to oil prices, Gazprom took account of customers' interests and considered the possibility of temporary reduction of "the take-or-pay" limit in the period of significant decrease of demand for gas and excessive supply. However, this reduction will be compensated by the additional obligations of contractors to take gas in future periods after recovery of gas consumption levels. In addition, the significant change of market conditions makes it justifiable to revise prices under the long-term contracts.

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

The following table shows the average prices of natural gas sales to FSU, Europe and other countries in 2009 and 2008:

	Year ended 31 December,	
	2009	**2008**
	(including excise tax and customs duty, net of VAT)	
Natural gas sales to Europe and other countries		
U.S.$ per mcm (1)	287.5	407.4
U.S.$ per thousand cf (1)	8.1	11.5
Average price in nominal RR per mcm	9,120.3	10,125.4
Natural gas sales to FSU		
U.S.$ per mcm (1)	202.1	159.2
U.S.$ per thousand cf (1)	5.7	4.5
RR per mcm	6,411.1	3,956.9

Note:
(1) Calculated based on annual average currency exchange rate between RR and U.S.$

Domestic natural gas prices

In 2009, the average price of gas sold by the Group in the domestic market remained significantly lower than export prices (without regard to export duties and transportation costs), which is related to the regulation of gas wholesale prices in Russia by the Russian Government. In 2009 the regulated wholesale gas prices were increased by 5%, from 1 January, by 7% - from 1 April, by 7% – from 1 July and by 6.2% - from 1 October. In 2010 regulated wholesale prices of gas for domestic sector were raised by 5% from 1 January and by 15% - from 1 April; for other customer groups the prices were increased by 15% from 1 January.

The following table shows the average domestic natural gas prices:

	Year ended 31 December,	
	2009	2008
	(including excise tax, net of VAT)	
RR per mcm	1,839.5	1,640.6
RR per thousand cf	52.1	46.5
U.S.$ per mcm (1)	58.0	66.0
U.S.$ per thousand cf (1)	1.6	1.9

Note:
(1) Calculated based on the annual average currency exchange rate between RR and U.S.$

Main area of capital expenditures

Approximately 70% of the segment's capital additions include the Group's investments in gasification of the Russian Federation regions. In 2009 the gasification program was implemented in 69 territorial subjects of the Russian Federation. The construction of 189 gasification facilities and seven launching complexes with the total length of 3.2 thousand kilometers, which would provide gas supply to 447 centers of population in 47 territorial subjects of the Russian Federation were completed, Gazprom investments amounted to RR 19.3 billion.

Reporting year and subsequent events

As agreed by Prime Ministers of Russia and Ukraine, on 19 January, 2009 OAO Gazprom and NAK Naftogaz Ukraine signed separate long-term (11 years) contracts on supply of natural gas to the Ukraine and transit of gas via Ukrainian territory to Europe. Under the supply contract, in 2009 the gas price for Ukrainian consumers is calculated under the generally accepted European pricing formula with reduction factor of 0.8, and starting from 1 January, 2010, Gazprom will be selling gas to the Ukraine at the European market price without any discounts. The transit contract provides for keeping in 2009 the preferential transit rate amounting to U.S.$1.7 for transportation of 1,000 cm per 100 km and transiting to the market rate calculated under the generally accepted European formula transit rate starting from 2010. Addendums to natural gas supply contract dated 19 January, 2009 were signed in April 2010. These addendums stipulate decrease of gas price for the Ukraine for the amount of decrease of export duty on gas supplies to the country, which is determined by the Government of Russian Federation. It is expected that decrease of export duty will be approximately 30% of the price, but not more than U.S.$100 for 1000 cm and relates to the supply volumes of 30 bcm in 2010 and 40 bcm in subsequent years.

In February 2009, the first Russian plant producing liquefied natural gas was launched by Sakhalin Energy Investment Company Ltd. (Sakhalin Energy), the operator of Sakhalin-II Project. The LNG plant consists of two technological lines with capacity of 4.8 million tons of LNG each, the second line was put into operation on 31 May, 2009. It is planned that the plant will reach its designed capacity of 9.6 million tons by the end of 2010. In 2009 Sakhalin Energy dispatched 5.2 million tons of LNG.

In 2009, a set of interdependent agreements were signed by the Group companies with the subsidiaries of Shell: with Shell International Eastern Trading Company (SIETCO) – a package of agreements under which SIETCO shall transfer half of the contracted LNG volumes from the Sakhalin-II project in favour of Gazprom Group (about 0.9 million tons per year at the plateau level) and corresponding rights to use re-gasification (terminal Costa Azul in Mexico) and transportation capacities on the Western Coast of the United States; with Shell Energy Europe - a contract on gas supplies to Germany for the total amount of 22 bcm (or 1.2 bcm per year), starting from 15 October, 2010. As a result, the Gazprom Group portfolio of contracts was expanded by long-term LNG sales volumes till 2028.

A contract was signed with DONG Energy AS on the annual sale of additional 1 bcm of Russian gas to Denmark under the Nord Stream project; the contract was signed for 18 years starting from 2012.

In 2009, a number of long-term contracts were signed with the following companies: with PremiumGas S.p.A. (a joint venture of Gazprom, A2A SpA and Iride S.p.A., created in 2008 for organizing gas supplies to final customers in Italy) - for a 13 year period (with an option to extend the contract for 5 more years); with ERG SpA - for a 10 year period (with an option to extend the contract for 10 more years); with Sinergie Italian S.r.l. - for a 10 year period; with EGL AG - for a 20 year period. In the period up to 2028 (without options) the Group shall deliver in total 28.6 bcm of gas under these contracts.

In October 2009, a contract was signed with the State Oil Company of Azerbaijan on the annual purchase of 0.5 bcm of natural gas in 2010 – 2015. It has been agreed that the volume of gas purchased in 2010 may be increased to 1 bcm.

In December 2009, the long-term gas sales contract with GC Turkmen gas was amended to reflect the renewal of Turkmenian gas purchases from 2010 in the annual amount of 30 bcm.

In December 2009, basic conditions of Uzbek gas sales were agreed: the volume of up to 15.5 bcm for 2010.

Development plans for Gas Distribution segment

The Group's strategy in the Russian domestic market consists of ensuring a continuous gas supply to the domestic customers while improving the profitability of sales. One of the milestones of domestic gas market development is to achieve a transition from the regulation of wholesale gas prices to the regulation of gas transportation tariffs through trunk pipelines for all gas suppliers. Decree of the Russian Government dated 28 May, 2007 No 333 envisages a number of actions aimed at liberalization of pricing in the gas industry and in particular, the transition from 1 January, 2011 to the market price formula that is based on the equal profitability of export gas supplies and supplies to domestic market. At the same time, given the world financial crisis, in 2009 the Government considered the possibility of postponing the liberalization process. The Group proposed to apply discount factors during the transition period (2011-2013) so as to gradually bring domestic prices to equal profitability with export prices. On the whole the proposal was supported by the regulators. At the same time no changes were made in the regulations in 2009.

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

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

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

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

Refining

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

	As of 31 December,	
	2009	**2008**
Assets, million RR	746,270	375,161
Share in total assets of the Group	8.6%	4.8%

	Year ended 31 December,	
	2009	**2008**
Capital expenditures, million RR	41,557	49,553
Share in the Group's total capital additions	6.3%	7.2%

Processing hydrocarbons and production of refined products

In 2009, natural gas and gas condensate was processed by gas processing and gas production subsidiaries of OAO Gazprom (OOO Gazprom pererabotka, OOO Gazprom dobycha Astrakhan, OOO Gazprom dobycha Orenburg, Vostokgazprom Group), crude oil was refined at capacities of Gazprom Neft Group - at Omsk Refinery, Moscow Refinery and OAO NGK Slavneft entities and NIS oil refineries.

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

	Year ended 31 December,			**Change**
	2009 (1)		**2008 (1)**	
	Total	**including abroad**		
Natural and petroleum gas, bcm	30.4	-	38.4	– 20.8%
including the OAO «Sibur Holding» and its subsidiaries (Sibur Group) (2)	-	-	5.1	-
Oil and unstable gas condensate, million tons	44.3	2.4	40.1	10.5%
including the Gazprom Neft Group (3)	33.4	2.4	28.4	17.6%

Notes:

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

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

(3) NIS data is included in the Group's figures from February 2009. From the end of the second quarter of 2009, after control is obtained over Sibir Energy, refinery volumes of Moscow Refinery are added to refinery volumes of Sibir Energy Group.

As of 31 December, 2009 the total processing and refining capacity of the Group was 52.5 bcm of natural gas and 75.4 million tons of unstable gas condensate and crude oil.

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

	Year ended 31 December, 2009 (1)		2008 (1)	Change
	Total	**including those abroad**		
Dry gas, bcm	24.2		30.9	– 21.7%
including the Sibur Group (2)	-		4.4	
Liquefied oil gases, thousand tons	2,876.7	95.8	4,104.1	– 29.9%
including the Sibur Group (2)	-		1,503.1	
including the Gazprom Neft Group (3)	851.5	95.8	563.8	51.0%
Broad fractions of light hydrocarbons, thousand tons	454.0		1,488.5	– 69.5%
including the Sibur Group (2)	-		933.9	
Stable gas condensate and crude oil, thousand tons	3,408.2		3,413.8	– 0.2%
Oil products, thousand tons	35,303.9	2,058.5	31,058.6	13.7%
including the Gazprom Neft Group (3)	30,670.3	2,058.5	26,214.2	17.0%
Helium, mcm	4,892.6		5,037.9	– 2.9%
Sulfur, thousand tons	4,405.4		5,385.9	– 18.2%
including the Gazprom Neft Group (3)	83.3		66.1	26.0%

Notes:

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

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

(3) NIS data is included in the Group’s figures from February 2009. Since the control over Sibir Energy is obtained by the Group in the second quarter 2009, Sibir Energy Group’s share of refinery volumes of Moscow Refinery were added to the Group.

The 2009 increase in the production of major oil products is mainly explained by the additional assets consolidated in 2009 (NIS and Sibir Energy). The main factor explaining the decrease in the volume of natural gas and petroleum gas products is deconsolidation of the Sibur Group starting from the second half of 2008.

Sales of refined products

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

(million tons)	Year ended 31 December, 2009 (1,2)	2008 (1,2)	Change
Russia	24.9	25.0	– 0.4%
incl. Gazprom Neft Group	18.1	16.2	11.7%
incl. the Sibur Group (3)	-	1.5	
FSU	3.8	3.9	– 2.6%
incl. Gazprom Neft Group	3.5	3.6	– 2.8%
incl. the Sibur Group (3)	-	0.2	
Europe and other countries	15.8	14.7	7.5%
incl. Gazprom Neft Group	11.9	9.2	29.3%
incl. the Sibur Group (3)	-	1.4	
Total	**44.5**	**43.6**	**2.1%**

Notes:

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

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

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

Increase of refined products sales volumes to Europe and other far abroad countries by Gazprom Group is due to consolidation of NIS and Sibir Energy, which compensated negative effects related to deconsolidation of Sibur Group results from the Gazprom Group results as well as due to unfavorable market conditions.

In 2009 sales of helium by the Group reached 4.9 mcm, which is by 2.0% below the 2008 level of 5.0 bcm.

The Group continues to strengthen its positions in the oil product retail sales in Russia and abroad. Finalization of purchasing the controlling interest in the Serbian NIS, obtaining control over Sibir Energy, as well as the split with TNK BP of assets of ZAO JV Slavneft-Start in the Republic of Belarus allowed to increase the network of operating fuel stations to 1,562 stations as of the end of 2009, 636 of which are located abroad.

In 2009, the sale of Gazprom Group's refinery products through the network of fuel stations increased by 20.8% and amounted to 3.43 million tons as compared with 2.84 million tons in 2008.

Main areas of capital expenditures

In 2009 the capital investments were mainly made in realization of New Urengoy gas chemical plant project development, reconstruction and modernisation of the Oms refinery, reconstruction of Orenburg gas processing plants as well as reconstruction and re-branding of Fuel stations network.

Reporting year events

In February 2009 the Group acquired a 51% interest in the Serbian oil company NIS including two refineries in Panchevo and Novy-Sad with total capacity of 7.3 million tons of oil per year from the Government of Serbia. The consideration amounted to RR 18.9 billion (400 million euro). Under the purchase agreement the Group is obliged to invest 547 million euro (approximately RR 24.6 billion as at acquisition date) in the reconstruction and modernisation of NIS' refinery facilities by 2012.

In April 2009 a lubricants producing plant in Bari (Italy) with the total capacity of 30 thousand tons of oil and 6 thousand tons of lubricants was acquired from Chevron Global Energy.

In the period from April to June 2009 the Group completed a series of transactions obtained the controlling interest in Sibir Energy, as a result of this fact Group's obtained control over OAO Moscovsky NPZ (set capacity of oil refinery – 12.2 million ton per year).

Development plans for the Refining segment

The main objective of the Group's development in gas processing and gas chemistry is an increase in the rate of extraction of valuable components of natural and associated oil gas and their effective use for further refining to marketable products with high added value; building up new gas processing and gas chemistry facilities, including in Eastern Siberia and Far East.

According to the oil business development strategy, by 2020 the volume of oil refining will be increased up to 70 million tons per year. This goal is to be achieved by increasing the Group's own oil refining capacity in Russia up to 40 million tons a year and abroad up to 25-30 million tons.

Strategic goals for the period up to 2020 in the area of marketing include: the sale of 40 million tons of oil products through marginal sale channels in Russia and abroad, building up a strong retail brand, a 20% increase in the average flow of a filling station and a two times increase of the accompanying goods and services share in the revenue. The growth of retail sales will be based on the expansion of filling stations network (total annual capacity of 18 million tons by 2020) through acquiring existing networks and entering new regions of the Russia and FSU countries.

Electric power

The following table shows assets and capital investments related Electric and heat energy generation and sales segment:

	As of 31 December, 2009	2008
Assets, million RR	464,916	353,916
Share in total assets of the Group	5.4%	4.6%

	Year ended 31 December, 2009	2008
Capital expenditures, million RR	26,139	37,976
Share in the Group's total capital additions	4.0%	5.5%

In December 2009 the Group increased its share in OAO TGC-1 from 28.7% to 51.8%. As of 31 December, 2009 the Group became the largest generating company in Russia.

As of 31 December, 2009 the Group's key electric power assets in Russia included: the largest generating entity OAO Mosenergo as well as OAO WGC-2 and OAO WGC-6, wholesale generating companies which include major federal power stations located in different regions of Russia. OAO TGC-1 is the third largest territorial generating company in terms of installed capacity.

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

Generating companies	Generating capacities as of 31 December, 2009, MW	Power generation, year ended 31 December, 2009, bln kWh	Heat capacity as of 31 December, 2009, Gcal/h	Heat production, year ended 31 December, 2009, mln Gcal
OAO Mosenergo	11,918	61.7	34,900	65.4
OAO WGC-2	8,695	47.2	1,700	2.4
OAO WGC-6	9,052	29.0	2,700	4.4
OAO TGC-1 (1)	6,313	-	14,362	-
ZAO Kaunasskaya TES (Lithuania)	170	0.6	894	1.3
Total (2)	**36,148**	**138.5**	**54,556**	**73.4**

Note:
(1) Information for heat and power generated by OAO TGC-1 will be included in the Group's figures from 1 January, 2010.
(2) Totals may not add up due to rounding.

In 2009, the Group's power generation increased by 26.7% to 138.5 billion kWh as compared with 109.3 billion kWh in 2008. In 2009, heat production increased by 9.4% to 73.4 million Gcal as compared with 67.1 million Gcal in 2008. The change is primarily explained by the inclusion of data of OAO WGC-2 and OAO WGC-6 in the Group's the data starting from the second quarter of 2008. On the whole, the market demand for power was decreasing. Low winter temperatures promoted the demand for heat.

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

Main areas of capital expenditures

In 2009, the Group primarily invested in construction of the second power-generating unit of Kaliningradskaya TEC-2, modernisation of Kirishskaya GRES of OAO WGC-6 based on steam-gas technology, the expansion of TEC-26 of OAO Mosenergo.

Development plans for Electric and heat energy generation and sales segment

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

The development of Gazprom's power business is primarily connected with the implementation of investment programs in the electric power and heat generation segment. Under the investment program newly introduced capacities of Russian generating companies within the Group are expected to total 7 GW in the period by 2016.

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

ENVIRONMENT PROTECTION

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

In 2009, as a result of governmental inspections, no significant violations of Russian environmental legislation by Gazprom Group entities were identified. Penalties related to violation by Gazprom of environmental legislation in 2009 amounted to RR 2.0 million as compared with RR 4.3 million in 2008.

The main indicators of Gazprom Group impact on environment are presented below:

	Year ended 31 December,		**Change**
Main indicators	**2009**	**2008**	
Pollutant emissions into the air, thousand tons	3,391.1	3,340.7	1.5%
carbonic oxide	645.8	785.5	– 17.8%
nitrogen oxide	335.9	339.4	– 1.0%
sulfur dioxide	249.1	248.6	0.2%
hydrocarbons (methane)	1,859.8	1,712.4	8.6%
Discharge of waste water, mcm	5,336.3	4,115.9	29.7%
including in surface-water bodies	5,175.9	3,895.1	32.9%
incl. clean and cleaned as per standard norms	5,031.3	3,853.1	30.6%
Generation of waste, thousand tons	5,210.8	4,084.5	27.6%
Recultivated lands, thousand ha	12.6	8.3	51.8%

The Group's power assets account for the main contribution in the formation and movement of waste generation and discharge of water waste in surface water bodies. At the same time 97% of waste water volume that go to surface water bodies are clean as per regulatory requirements or have been cleaned at treatment facilities and 88% of generated waste relate to the category of insignificantly dangerous or safe.

Gazprom Group's environmental costs are disclosed below:

(million RR)	Year ended 31 December,		Change
	2009	2008	
Current costs	10,376.5	17,162.3	– 39.5%
Costs of capital repairs of fixed assets used for environmental protection	962.7	1,428.8	– 32.6%
Pollution charges	1,218.4	2,678.8	– 54.5%
Capital environmental costs	6,323.6	3,493.7	81.0%
Total	**18,881.2**	**24,763.6**	**– 23.8%**

In 2009 decrease of environment protection expenses and payments for negative impact on the environment by the Gazprom Group were caused by the overall decrease of hydrocarbons production and volumes of transportation services provided. Due to commencements of development works at Bovanenkovskoye field located at Yamal peninsula investments in plant and equipment related to environment protection and rational use of natural resources increased significantly.

In line with the Energy Strategy of Russia up to 2030, the Climate and Ecology Doctrines of the Russian Federation, OAO Gazprom strictly adheres to the corporate policy of Earth climate protection. In 2009 CO_2 emissions from the Group production assets, related to production, refining, transportation and underground gas storage, were reduced by 7.1 million tons as compared with 2008 due to savings of fuel gas. In 2005–2009 total reduction of CO_2 emissions is estimated at 28.5 million tons.

INNOVATIVE ACTIVITY

Gazprom's scientific and technical complex is an instrument to implement the corporate science and technical policies aimed at solving perspective tasks in due time and with high quality and at forming the basis for the Group's development.

Management of innovative activity is customized by the Group's business types. Gazprom's scientific and technical complex is focused on solving tasks in exploration, production, transportation and underground storage as well as processing and refining of gas, gas condensate and oil. The complex includes ten research institutes and scientific centres. The Group also engage third parties to perform research and development work.

In 2009, total expenditures on research and development work performed at the Group's request increased by 51.0% to RR 7.4 billion as compared to 4.9 billion in 2008.

The increase in costs is mainly explained by the need to solve complex tasks associated with the development of new gas producing areas in the Yamal peninsular, on the shelf of northern seas, in East Siberia and Far East. Other areas of research are associated with the development of oil business, including development of efficient exploration complexes, mitigation of geological risks, enhanced accuracy of perspective items determination and changes in the quality requirements to oil refinery products.

As of 31 December, 2009 Gazprom Group entities held 1,379 patents, including 173 patents registered in 2009.

EMPLOYEES

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

As of 31 December, 2009 the number of employees in Gazprom Group’s subsidiaries was 393.6 thousand people, including 18.9 thousand employees of Gazprom Group’s entities registered abroad.

The structure of Gazprom Group’s employees as of 31 December, 2009 is provided in the following table.

(share)	**As of 31 December, 2009**
Managers	12.3%
Specialists	23.5%
Other employees	2.6%
Workers	61.6%

The table below shows the level of education of Gazprom Group staff as of 31 December, 2009.

(share)	**As of 31 December, 2008**
Post-graduate	0.5%
Higher professional	36.8%
Secondary-level professional	23.6%
Secondary-level	39.1%

Professional training of workers is carried out in training divisions of subsidiaries, training of graduates – in corporate and governmental educational institutions. Totally, 142.2 thousand employees were covered by professional training in 2008.

In 2009, the Group's costs on employee training (including business trip costs) totaled RR 1.6 billion which represents a 44% decrease (or a decrease by RR 1.3 billion) as compared with 2008, this is primarily explained by cost saving restrictions due to adverse economic conditions.

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

The General Collective Agreement of OAO Gazprom, its subsidiaries and entities for 2007–2009 affects interests of 266.7 thousand employees.

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

ANALYSIS OF FINANCIAL RESULTS OF OPERATIONS

Result of operations

(RR million)	Year ended 31 December, 2009	2008
Sales (net of excise tax, VAT and customs duties)	2,990,971	3,285,486
Net gain from trading activity	8,295	4,221
Operating expenses	(2,096,926)	(1,930,437)
Impairments provision and other provisions	(45,428)	(98,964)
Operating profit	**856,912**	**1,260,306**
Purchase of non-controlling interest in OAO Gazprom neft	13,865	-
Loss from change in fair value of call option	-	(50,738)
Gain from swap of assets transaction	105,470	-
Finance income	375,799	165,603
Finance expense	(441,487)	(341,179)
Share of net income (loss) of associated undertakings and jointly controlled entities	62,557	(16,686)
Gains on available-for-sale financial assets	6,319	14,326
Profit before profit tax	**979,435**	**1,031,632**
Current profit tax expense	(182,255)	(307,094)
Deferred profit tax (expense) benefit	(3,387)	46,842
Profit tax expense	(185,642)	(260,252)
Profit for the period	**793,793**	**771,380**
Other comprehensive income		
Gains (losses) arising from change in fair value of available-for sale financial assets, net of tax	32,193	(58,105)
Share of other comprehensive income (losses) of associated undertakings and jointly controlled entities	7,098	(4,972)
Translation differences	1,704	20,340
Revaluation of equity interest	9,911	-
Other comprehensive income (loss) for the year, net of tax	**50,906**	**(42,737)**
Total comprehensive income for the year	**844,699**	**728,643**
Profit attributable to:		
owners of OAO Gazprom	779,585	742,928
non-controlling interest	14,208	28,452
	793,793	**771,380**
Total comprehensive income attributable to:		
owners of OAO Gazprom	835,182	699,071
non-controlling interest	9,517	29,572
	844,699	**728,643**

Sales

The following table sets out volumes and realized prices.

(RR million unless indicated otherwise)	Year ended 31 December, 2009	2008
Sales of gas		
Europe and other countries		
Gross sales [1]	1,393,958	1,697,078
Excise tax	(220)	(81)
Customs duties	(290,742)	(436,352)
Net sales	1,102,996	1,260,645
Volumes in bcm	152.8	167.6
Gross average price, U.S.$ per mcm (including excise tax and customs duties) [2]	287.5	407.4
Gross average price, RR per mcm (including excise tax and customs duties)	9,120.3	10,125.4

(RR million unless indicated otherwise)	Year ended 31 December, 2009	2008
FSU (Former Soviet Union)		
Gross sales (net of value added tax (VAT)	363,400	381,902
Excise	-	-
Customs duties	(53,471)	(25,388)
Net sales	309,929	356,514
Volumes in bcm	56.7	96.5
Gross average price, U.S.$ per mcm (including excise tax and customs duties, net of VAT) [2]	202.1	159.2
Gross average price, RR per mcm (including excise tax and customs duties, net of VAT)	6,411.1	3,956.9
Russia		
Gross sales (net of VAT)	503,121	479,387
Excise	-	-
Net sales	503,121	479,387
Volumes in bcm	273.5	292.2
Gross average price, RR per mcm (including excise tax, net of VAT)	1,839.5	1,640.6
Total sales of gas		
Gross sales (net of VAT)	2,260,479	2,558,367
Excise tax	(220)	(81)
Customs duties	(344,213)	(461,740)
Net sales	1,916,046	2,096,546
Volumes in bcm	483.0	556.3
Sales of refined products (net of excise tax, VAT and customs duties)	540,505	652,956
Sales of electricity and heat energy (net of VAT)	195,040	134,335
Sales of crude oil and gas condensate (net of excise tax, VAT and customs duties)	176,403	214,955
Gas transportation sales (net of VAT)	65,563	70,685
Other revenues (net of VAT)	97,414	116,009
Total sales (net of excise tax, VAT and customs duties)	**2,990,971**	**3,285,486**

Notes:

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

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

Total sales (net of excise tax, VAT and customs duties) decreased by RR 294,515 million, or 9%, to RR 2,990,971 million in the year ended 31 December, 2009 compared to the year ended 31 December, 2008.

Net sales of gas accounted for 64% of total net sales in the years ended 31 December, 2009 and 2008.

Net sales of gas decreased from RR 2,096,546 million in the year ended 31 December, 2008 to RR 1,916,046 million in the year ended 31 December, 2009, or by 9%.

Net sales of gas to Europe and other countries decreased in the year ended 31 December, 2009 compared to the year ended 31 December, 2008, by RR 157,649 million, or 13%, to RR 1,102,996 million. Gross average RR price (including excise tax and customs duties) dropped by 10% for the year ended 31 December, 2009, compared to the year ended 31 December, 2008. At the same time volumes for the year ended 31 December, 2009 decreased by 9% compared to the year ended 31 December, 2008.

Net sales of gas to FSU countries decreased in the year ended 31 December, 2009 compared to the year ended 31 December, 2008, by RR 46,585 million, or 13%, to RR 309,929 million. This decrease was mainly due to a 41% decrease in volumes which was partially offset by increase in prices in RR terms (net of excise tax, VAT and customs duties) by 48%.

Net sales of gas in the domestic market increased by RR 23,734 million, or 5%, in the year ended 31 December, 2009 compared to the year ended 31 December, 2008. This increase was mainly due to the increase in domestic gas average prices set by the Federal Tariffs Service (FTS) by 12%, which was partly offset by 6% decrease in sales volumes.

Sales of refined products (net of excise tax, VAT and customs duties) decreased by RR 112,451 million, or 17%, to RR 540,505 million in the year ended 31 December, 2009 compared to RR 652,956 million in the year ended 31 December, 2008. The decrease mainly resulted from the deconsolidation of Sibur Group since the second half of 2008 and the decrease in world prices for refined products in 2009 compared to 2008. In 2009 and 2008 Gazprom Neft Group's sales comprised 85% and 68% of the total amount of refined products sales of Gazprom Group, respectively.

Sales of electricity and heat energy (net of VAT) increased by RR 60,705 million, or 45%. This increase was mainly due to sales by OAO WGC-2 and OAO WGC-6, which were consolidated since second half of 2008, and also due to the sales of OAO Mosenergo.

Sales of crude oil and gas condensate (net of excise tax, customs duties and VAT) decreased by RR 38,552 million, or 18%, to RR 176,403 million in the year ended 31 December, 2009 compared to RR 214,955 million in the year ended 31 December, 2008. The decrease was mainly caused by oil price decrease. Sales of crude oil included in net sales of crude oil and gas condensate (net of customs duties and VAT), amounted to RR 157,874 million and RR 191,378 million in the year ended 31 December, 2009 and 2008, respectively.

Gas transportation sales decreased by RR 5,122 million, or 7%, to RR 65,563 million in the year ended 31 December, 2009 from RR 70,685 million in the year ended 31 December, 2008. The decrease is mainly explained by decrease of Turkmen and Russian gas transportation through RosUkrEnergo AG to the Ukraine was discontinued in 2009. During 2008 these services were rendered to RosUkrEnergo AG acting as the operator in supplies of central Asian and Russian gas to Ukraine.

Other revenues decreased by RR 18,595 million, or 16%, to RR 97,414 million in the year ended 31 December, 2009 compared to RR 116,009 million in the year ended 31 December, 2008.

Starting from 2009, revenues generated by trading activities are reported as net figures, reflecting realized gross margins. Trading activities are mainly managed by Gazprom Marketing and Trading Ltd. subsidiary of the Group and relate partly to gas trading and power and emission rights trading activities. The effect of this change on 2008 sales was RR 233,474 and had no effect on operating income and cash flows.

Operating expenses

Operating expenses increased by 9% in the year ended 31 December, 2009 to RR 2,096,926 million from RR 1,930,437 million in the year ended 31 December, 2008. Operating expenses as a percentage of sales increased from 59% in the year ended 31 December, 2008 to 70% in the year ended 31 December, 2009. The table below presents a breakdown of operating expenses in each period:

(RR million)	**Year ended 31 December,**	
	2009	**2008**
Purchased oil and gas	606,435	528,664
Staff costs	255,977	240,607
Taxes other than on income	244,748	258,971
Transit of gas, oil and refined products	238,327	185,269
Depreciation	221,197	195,016
Repairs and maintenance	138,779	152,234
Materials	83,576	90,722
Cost of goods for resale, including refined products	54,562	71,933
Electricity and heating expenses	43,375	48,691
Research and development expenses	28,524	19,952
Social expenses	20,639	18,668
Rental expenses	19,912	15,178
Insurance expenses	16,315	14,637
Processing services	9,744	10,055
Transportation services	7,309	7,485
Other operating expenses	107,507	72,355
Total operating expenses	**2,096,926**	**1,930,437**

Purchased oil and gas

Cost of purchased oil and gas increased by 15% to RR 606,435 million in the year ended 31 December, 2009 from RR 528,664 million in the year ended 31 December, 2008. The increase primarily relates to the increase in the gas purchase price from Central Asian suppliers. The cost of purchased oil included in the cost of purchased oil and gas increased by RR 6,401 million, or 4%, and amounted to RR 163,995 million in 2009 in comparison with RR 157,594 million in 2008 due to increase in volumes of purchased oil that was partly offset by the decrease of world oil prices.

Staff costs

Staff costs increased by 6% to RR 255,977 million in the year ended 31 December, 2009 from RR 240,607 million in the year ended 31 December, 2008. The increase can be explained mainly by the growth of average base salaries.

Taxes other than on income

Taxes other than on income consist of:

(RR million)	Year ended 31 December, 2009	2008
Natural resources production tax	144,908	188,494
Excise tax	53,024	29,309
Property tax	36,034	27,781
Other taxes	10,782	13,387
Taxes other than on income	**244,748**	**258,971**

Natural resources production tax decreased by 23% to RR 144,908 million in the year ended 31 December, 2009 from RR 188,494 million in the year ended 31 December, 2008. The decrease mainly related to crude oil production activity and was caused by a decrease in average world oil prices, which resulted in a lower effective production tax rate.

Transit of gas, oil and refined products

Transit of gas, oil and refined products increased by 29% to RR 238,327 million in the year ended 31 December, 2009 from RR 185,269 million in the year ended 31 December, 2008. This increase mainly relates to increased costs of transportation through Kazakhstan and Uzbekistan in 2009 in comparison with 2008.

Depreciation

Depreciation increased by 13% to RR 221,197 million in the year ended 31 December, 2009 from RR 195,016 million in the year ended 31 December, 2008. The increase primarily relates to the growth in fixed assets base.

Repairs and maintenance

Cost of repairs and maintenance decreased by 9% to RR 138,779 million in year ended 31 December, 2009 from RR 152,234 million in the year ended 31 December, 2008. The overall decrease in repair and maintenance expenses is explained by the decrease of volume of capital repairs and maintenance performed by contractors for production entities of the Group.

Materials

Cost of materials decreased by 8% to RR 83,576 million in the year ended 31 December, 2009 from RR 90,722 million in the year ended 31 December, 2008. The decrease was primarily caused by the lower amount of materials used for repair purposes and deconsolidation of the Sibur Group starting second half of 2008 and was partly offset by an increase caused by consolidation of OAO WGC-2 and OAO WGC -6.

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products decreased by 24% to RR 54,562 million in the year ended 31 December, 2009 from RR 71,933 million in the year ended 31 December, 2008. The decrease was mainly caused by decrease in prices of oil and refined products in 2009.

Electricity and heating expenses

Electricity and heating expenses decreased by 11% to RR 43,375 million in the year ended 31 December, 2009 from RR 48,691 million in the year ended 31 December, 2008. The decrease mainly resulted from the deconsolidation of the Sibur Group starting second half 2008.

Other operating expenses

Other operating expenses increased by 35,152 million to RR 107,507 million in the year ended 31 December, 2009 from RR 72,355 million in the year ended 31 December, 2008.

Other operating expenses increased mainly due to decrease of gain from revaluation of assets and liabilities (excluding loans and borrowings) denominated in foreign currency in the amount of RR 7,059 million and also due to increase of expenses for legal and consulting services, banking services and security.

Other operating expenses also include heat transmission services, charity and financial aid.

Impairment provision and other provisions

In 2008 the Group conducted an impairment test of its property, plant and equipment, goodwill, investments in associated undertakings and jointly controlled entities and other assets when there were indicators that these assets may be impaired.

As a results of impairment test in 2008 the Group recognized a total impairment loss of RR 51,031 million for power generating assets, including goodwill on the acquisition of OAO WGC-2 and OAO WGC-6. The impairments were primarily triggered by the increase in discount rates, projected reduction in electricity consumption and expected oil and electricity prices.

In 2009 the Group has assessed whether were any indication that the Group's assets may be impaired. No such indications were identified in 2009 that might impact the recoverable amount of such assets.

Included in the impairment and other provisions are provisions for short-term and long-term accounts receivable in the amount of RR 33,586 million and RR 42,057 million for 2009 and 2008 respectively.

Operating profit

As a result of the factors discussed above, our operating profit decreased by RR 403,394 million, or 32%, to RR 856,912 million in the year ended 31 December, 2009 from RR 1,260,306 million in the year ended 31 December, 2008. Our operating profit margin decreased from 38% in the year ended 31 December, 2008 to 29% in the year ended 31 December, 2009.

Purchase of non-controlling interest in OAO Gazprom neft

In April 2009 the Group purchased an additional 20% interest in OAO Gazprom neft for U.S.$4.1 billion (RR 138,527 million) from ENI S.p.A. As a result of this transaction, the Group has increased its interest in OAO Gazprom neft to 95.68%. The difference between the carrying value of the acquired non-controlling interest in the amount of RR 152,392 million and purchase consideration was recognized as a gain in the amount of RR 13,865 million the consolidated statement of comprehensive income.

Loss from change in fair value of call option

In April 2007, ENI S.p.A. offered the Group an option to acquire its 20% interest in OAO Gazprom neft by April 2009, at a price of U.S.$4.1 billion. For the year ended 31 December, 2008 loss from change in fair value of the option in the amount of RR 50,738 million was recognized in the statement of comprehensive income as a result of decrease in market quotations of OAO Gazprom neft shares.

Gain from swap of assets transaction

On 30 October, 2009 the Group closed the swap agreement with E.ON Ruhrgas AG. As a result thereof, the Group swapped its 25% share in OAO Severneftegazprom less three ordinary shares, three preference shares without voting right of OAO Severneftegazprom and a preference share in ZAO Gazprom YRGM Development for a 49% interest in ZAO Gerosgaz and cash compensation of Euro 67 million. As a result of the swap the Group recognised gain on disposal of non-controlling interest in OAO Severneftegazprom and ZAO Gazprom YRGM Development in consolidated statement of comprehensive income in the amount of RR 105,470 million, being the difference between carrying amount of transferred assets and respective fair value of ZAO Gerosgaz shares acquired. Treasury shares were recognized as deduction from equity at market value as at the date of the swap closure.

Finance income and expenses

(RR million)	**Year ended 31 December, 2009**	**2008**
Exchange gains	338,976	118,746
Exchange losses	(367,320)	(281,269)
Net exchange loss	**(28,344)**	**(162,523)**
Interest income	36,762	46,822
Interest expense	(74,167)	(59,910)
Gains on and extinguishment of restructured liabilities	61	35
Net finance expense	**(65,688)**	**(175,576)**

Exchange gains increased by 185% to RR 338,976 million in the year ended 31 December, 2009, compared to RR 118,746 million in the year ended 31 December, 2008. Exchange losses increased by 31% to RR 367,320 million in the year ended 31 December, 2009 from RR 281,269 million in the year ended 31 December, 2008. The net exchange loss of RR 28,344 million in the year ended 31 December, 2009 compared to net exchange loss of RR 162,523 million in the year ended 31 December, 2008 decreased by RR 134,179 million. The increase in exchange gains and exchange losses is explained by higher fluctuation of rate of U.S.$ and EURO against RR in 2009 in comparison with 2008.

Interest income decreased by 21% to RR 36,762 million in the year ended 31 December, 2009 from RR 46,822 million in the year ended 31 December, 2008, mainly caused by deconsolidation of OAO Gazprombank starting second half 2008, whose main activities were providing credits and loans to individuals and entities.

Interest expense increased by 24% from RR 59,910 million in the year ended 31 December, 2008 to RR 74,167 million in the year ended 31 December, 2009 mainly due to increase of average balance of loans and borrowings during 2009.

Share of net income (loss) of associated undertakings and jointly controlled entities

Share of net income of associated undertakings and jointly controlled entities in the year ended 31 December, 2009, amounted to RR 62,557 million compared to the share of net loss of associated undertakings and jointly controlled entities for the year ended 31 December, 2008 which amounted to RR 16,686 million. The Group's share of the profit for the year 2009 relates mainly to increase of profit of oil and gas associated undertakings of Group due to growth of commodities prices and increase of the net profit of Gazprombank Group as a result of improved financial performance in 2009 and compared to 2008.

Profit tax

Total profit tax expense decreased by RR 74,610 million, or 29%, to RR 185,642 million in the 2009 compared to RR 260,252 million in 2008. The effective income tax rate was 19% in 2009, compared to 25% in 2008. The decrease of effective tax rate is mainly affected by change of the tax rate from 24% to 20% starting from January 1, 2009, and one-time recognition of non-taxable income related to the purchase of an additional interest in OAO Gazprom neft and gain from swap of assets with E.ON Ruhrgas AG during 2009 and recognition of non-deductible loss from the change in the fair value of option with ENI S.p.A. in 2008.

Profit for the period attributable to owners of OAO Gazprom

As a result of the factors discussed above, the Group's profit for the year ended 31 December, 2009 attributable to owners of OAO Gazprom increased by RR 36,657 million or 5%, from RR 742,928 million in the year ended 31 December, 2008 to RR 779,585 million in the year ended 31 December, 2009.

Profit for the period attributable to non-controlling interest

Non-controlling interest decreased by 50% to RR 14,208 million in the year ended 31 December, 2009 compared to RR 28,452 million in the year ended 31 December, 2008 mainly due to the deconsolidation of Gazprombank Group starting second half of 2008 and purchase of additional 20% interest in OAO Gazprom neft in April 2009.

Liquidity and capital resources

The following table summarizes the statements of cash flows:

	Year ended 31 December,	
(RR million)	**2009**	**2008**
Net cash provided by operating activities	897,154	1,016,551
Net cash used for investing activities	(993,111)	(895,598)
Net cash used for financing activities	(2,867)	(68,893)

Net cash provided by operating activities

Net cash provided by operating activities amounted to RR 897,154 million in the year ended 31 December, 2009 compared to RR 1,016,551 million in the year ended 31 December, 2008. The decrease of RR 119,397 million was primarily due to reduction of operating profit in the year ended 31 December, 2009 in comparison with the year ended 31 December, 2008.

Net cash used for investing activities

Net cash used for investing activities amounted to RR 993,111 million in the year ended 31 December, 2009 compared to RR 895,598 million in the year ended 31 December, 2008. The increase was primarily due to increase of cash used for acquisition of subsidiaries and higher capital expenditures on field development and gas transportation infrastructure (see Capital Expenditures).

Net cash used for financing activities

Net cash used for financing activities amounted to RR 2,867 million in the year ended 31 December, 2009 compared to net cash used for financing activities in the amount of RR 68,893 million in year ended 31 December, 2008. This change was primarily due to the fact that the amount of dividends paid in 2008 based on the results for 2007 were higher than the amount of dividends paid in 2009 based on the results of 2008.

Working capital

The working capital surplus (current assets less current liabilities) was RR 641,121 million as of 31 December, 2009 and RR 607,230 million as of 31 December, 2008. The RR 33,891 million increase in our working capital in the year ended 31 December, 2009 was primarily due to an increase in accounts receivable and prepayments, short-term financial assets, accounts payable and taxes payable. These effects were partially offset by a decrease in cash and cash equivalents.

The increase in account receivable and prepayments amounted to RR 166,980 million and was caused by increase of prepayments, mainly to customs, and increase in loans issued.

The increase in short-term financial assets amounting to RR 28,689 million was caused mainly by growth of debt securities balances held by ZAO Gazenergoprombank.

The increase in accounts payable mainly relates to accounts payable of newly consolidated subsidiaries Sibir Energy and NIS and accounts payable related to the acquisition of 51% interest in OOO Severenergiya (respective accounts payable were redeemed on 31 March 2010).

Management 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. The Group is also dependent on regular access to the domestic RR bank loan and RR debt markets to meet a significant portion of its financing requirements.

Capital expenditures

Total capital expenditures (excluding the effect of acquisitions of subsidiaries and reclassifications) by major lines of operations for the year ended 31 December, 2009 and 2008 in nominal RR terms, amounted to the following:

(RR million)	Year ended 31 December,	
	2009 (1)	**2008** (1)
Transport	289,164	280,457
Production of gas	274,755	252,645
Production of crude oil and gas condensate	88,764	94,432
Refining	58,589	55,419
Distribution	35,823	33,915
Electric and heat energy generation and sales	29,953	43,269
Gas storage	10,942	9,471
All other segments	22,880	31,723
Total	**810,870**	**801,331**

Notes:

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

Total capital expenditures (excluding the effect of acquisitions of subsidiaries and reclassifications) increased by RR 9,539 million, or 1%, from RR 801,331 million in 2008 to RR 810,870 million in 2009.

The increase of our capital expenditures in the Production of gas segment was primarily due to increased capital expenditure on the construction of new wells, associated gas preparation units and railway Obskaya – Bovanenkovo at Bovanenkovskoye field and construction of semisubmersible drilling rig under Shtokman project.

The increase of our capital expenditures in the Transportation segment was primarily due to increased capital expenditure on the construction of major transportation projects, including Bovanenkovo-Uhta, Nord Stream and Pochinki-Gryazovets.

The decrease of capital expenditures in the Electricity and heat energy generation and sales segment was primarily due to decreased capital expenditures of OAO Mosenergo.

Debt obligations

Net debt balance (defined as the sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities, net of cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations) increased by RR 353,961 million, or 35%, from RR 1,018,346 million as of 31 December, 2008 to RR 1,372,307 million as of 31 December, 2009. This increase can be explained by a significant increase of long-term borrowings.

(RR million)	As of 31 December,	
	2009	**2008**
Long-term borrowings		
Fixed interest rate borrowings	1,149,288	914,937
Weighted average interest rates for fixed rate borrowings	7.84%	6.65%
Variable interest rate borrowings	268,848	247,312
Weighted average interest rates for variable rate borrowings	2.10%	4.64%
Total long-term borrowings	**1,418,136**	**1,162,249**
RR denominated borrowings	154,887	95,035
Foreign currency denominated borrowings	1,263,249	1,067,214
Total long-term borrowings	**1,418,136**	**1,162,249**
Less: current portion of long-term borrowings	(233,679)	(239,019)
Add: long-term promissory notes	4,592	1,718
Total long-term debt obligations	**1,189,049**	**924,948**
Short-term debt borrowings		
Fixed interest rate borrowings	134,823	94,265
Weighted average interest rates for fixed rate borrowings	8.78%	6.25%
Variable interest rate borrowings	56,353	99,356
Weighted average interest rates for variable rate borrowings	3.08%	5.60%
Total short-term borrowings	**191,176**	**193,621**
RR denominated borrowings	119,178	90,770
Foreign currency denominated borrowings	71,998	102,851
Total short-term borrowings	**191,176**	**193,621**
Plus: Current portion of long-term borrowings	233,679	239,019
Short-term promissory notes, net of discount	11,761	8,052
Average discount on promissory notes	-	-
Total short-term debt obligations	**436,616**	**440,692**
Total borrowings	**1,625,665**	**1,365,640**

The following table shows our actual foreign currency denominated long-term borrowings (expressed in millions of U.S.$) as of 31 December, 2009 and 2008 as well as the same balances expressed in RR:

	As of 31 December,	
	2009	**2008**
U.S.$ denominated (expressed in millions of U.S.$)	26,261	23,125
Euro denominated (expressed in millions of U.S.$) (1)	12,785	13,196
Other currencies denominated (expressed in millions of U.S.$)	2,723	3
Total long-term convertible-currency-denominated borrowings expressed in millions of U.S.$	**41,769**	**36,324**
Total long-term convertible-currency-denominated borrowings expressed in millions of RR (2)	**1,263,249**	**1,067,214**

Notes:

(1) Converted at the euro to U.S.$ exchange rate of 1.43 and 1.41 as of 31 December, 2009 and 2008, respectively.

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

A portion of our long-term borrowings denominated in convertible currencies is collateralized by receivables under certain of the Group's export contracts. As of 31 December, 2009 and 2008, borrowings of RR 27,118 million and RR 30,451 million, respectively, inclusive of current portion of long-term borrowings, were secured by revenues from export supplies of gas to Western Europe. We have not increased our borrowings secured by revenues from export supplies of natural gas to Western Europe since 31 December, 2009.

The following table shows the schedule of repayments for long-term borrowings (excluding long-term promissory notes) as of 31 December, 2009 and 2008:

(RR million)	As of 31 December,	
	2009	**2008**
Between one and two years	162,848	181,615
Between two and five years	527,212	267,294
After five years	494,397	474,321
Total	**1,184,457**	**923,230**

SHAREHOLDER STRUCTURE AND STOCK MARKET OF OAO GAZPROM

OAO Gazprom's charter capital amounts to RR 118,367,564,500, consisting of 23,673,512,900 common registered shares with a nominal value of RR 5 each. The total number of the OAO Gazprom registered shareholders as of 31 December, 2009 was 46,988, including 12 nominee holders.

Together with its ordinary shares, OAO Gazprom issued American Depositary Receipts (ADRs) for OAO Gazprom ordinary shares in accordance with the program of issuance of level I American Depositary Receipts. The program provides for a free conversion of OAO Gazprom shares into ADRs and vice versa. The Bank of New York Mellon acts as the depositary bank for the program.

At present, Gazprom's level I ADRs are freely tradeable on the over-the-counter stock market in the United States and on European exchanges such as the London Stock Exchange (LSE), the Berlin-Bremen Stock Exchange and the Frankfurt Stock Exchange.

According to the Russian legislation the maximum volume of common shares underlying ADR may not exceed 35% of Gazprom's charter capital.

The following table summarises shareholder structure of OAO Gazprom as of the last working days of 2009 and 2008:

	As of 31 December,	
	2009	**2008**
Interest controlled by the Russian Federation, total, including:	50.002%	50.002%
Russian Federation represented by the Federal Agency For State Property Management	38.373%	38.373%
OAO Rosneftegaz	10.740%	10.740%
OAO Rosgazifikatsiya	0.889%	0.889%
ADR holders	24.350%	22.150%
Other entities	25.648%	27.848%

In 2009 the shareholder structure did not undergo significant changes. The Russian Federation remains the major shareholder of OAO Gazprom. Taking into account OAO Gazprom voting shares owned by OAO Rosneftegaz and OAO Rosgazifikatsiya (10.74% and 0.889%, respectively), the state controls 50.002%.

The share of ADR holders in OAO Gazprom equity increased to 24.35% as of 31 December, 2009 (31 December, 2008 – 22.15%).

Based on the 2009 results, the quotation of OAO Gazprom shares and ADR increased because of recovery of the Russian stock market against the positive dynamics of the world financial markets and renewed increase in the world oil prices.

Changes in the price of OAO Gazprom shares and ADRs and trading volumes on major trading floors in 2009 and 2008 are presented in the table below.

	As of 31 December,		Change
	2009	**2008**	
MICEX			
Closing price for share, RR			
Year end	183.21	108.60	69%
Minimum	101.91	86.60	-
Maximum	200.16	367.40	-
Average daily trading volume, mln. shares	83.5	65.5	27%
Average daily trading volume, RR bln.	13.0	15.6	– 17%

	As of 31 December, 2009	2008	Change
LSE			
Closing price for ADR [(1)], U.S.$			
Year end	25.50	14.25	79%
Minimum	12.26	11.91	-
Maximum	27.30	62.50	-
Average daily trading volume, mln. ADR	12.4	16.9	– 27%
Average daily trading volume, RR bln.	243.1	581.6	– 58%

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

The average daily trading volume on MICEX in 2009 was U.S.$13 billion or above 20% of the total average daily volume of secondary exchange trading of securities within stock sector of MICEX.

In the reporting year the average capitalization of OAO Gazprom increased up to U.S.$144.5 billion at the end of the year. Despite the increase in the capitalization during the year the average market capitalization of OAO Gazprom decreased in 2009 by 51% and totaled U.S.$117 billion as compared with 2008.

As of 31 December dividend payments in 2009 based on OAO Gazprom performance results for 2008 are as follows:

	As of 31 December, 2009			
	Accrued, RR thousand	**Paid, RR. thousand**	**Unpaid dividends, RR thousand[(1)]**	**Proportion of unpaid and accrued dividends**
Total	8,522,465	8,269,088	253,377	2.97%
including dividends on shares:				
– owned by the state	3,270,338	3,270,338	–	–
– owned by state-controlled legal entities: OAO Rosneftegaz and OAO Rosgazifikatsiya	991,047	991,047	–	–
– owned by individuals and legal entities (apart from state-controlled)	4,260,863	4,007,703	253,160	5.94%
– owned by undefined holders	217	–	217	100%

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

MANAGEMENT STRUCTURE OF OAO GAZPROM

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

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

Board of Directors and Management Committee

Information on members of the Board of Directors as of 31 December, 2009

Name	Year of Birth	Position
Viktor A. Zubkov	1941	Chairman of OAO Gazprom's Board of Directors and First Deputy Prime Minister of the Russian Federation
Alexey B. Miller	1962	Deputy Chairman of OAO Gazprom's Board of Directors and Chairman of OAO Gazprom's Management Committee
Alexander G. Ananenkov	1952	Deputy Chairman of OAO Gazprom's Management Committee
Burckhard Bergmann	1943	Board of Directors member
Farit R. Gazizullin	1946	Board of Directors member
Elena E. Karpel	1944	Head of the Economic Appraisal and Pricing Department of OAO Gazprom
Valery A. Musin	1939	Head of Department for Civil Process of Legal Faculty, St. Petersburg State University
Elvira S. Nabiullina	1963	Minister for Economic Development of the Russian Federation
Mikhail L. Sereda	1970	Deputy Chairman of OAO Gazprom's Management Committee and Head of Administration of OAO Gazprom's Management Committee
Sergey I. Shmatko	1966	Minister for Energy of the Russian Federation
Igor H. Yusufov	1956	Special Representative of the President of the Russian Federation for International Energy Cooperation and Ambassador-at-large of the Ministry of Foreign Affairs of the Russian Federation

Changes in the Board of Directors in 2009:

Name	Change
Viktor B. Khristenko	Member of the Board of Directors (until 26 June, 2009)
Sergey I. Shmatko	Member of the Board of Directors (starting from 26 June, 2009)
Valery A. Musin	Member of the Board of Directors (starting from 26 June, 2009)

In 2009, 95 sessions of the Board of Directors of OAO Gazprom (11 – in person, 84 - vote in absentia) were held, 187 decisions were made (57- in person, 130 – vote in absentia).

Information on members of the Management Committee as of 31 December, 2009

Name	Years of Birth	Position
Alexey B. Miller	1962	Chairman of OAO Gazprom's Management Committee
Alexander G. Ananenkov	1952	Deputy Chairman of OAO Gazprom's Management Committee
Elena A. Vasilieva	1959	Deputy Chairman of Gazprom's Management Committee and Gazprom's Chief Accountant
Valery A. Golubev	1952	Deputy Chairman of Gazprom's Management Committee
Alexander N. Kozlov	1952	Deputy Chairman of Gazprom's Management Committee
Andrey V. Kruglov	1969	Deputy Chairman of Gazprom's Management Committee and Head of the Finance and Economics Department
Alexander I. Medvedev	1955	Deputy Chairman of Gazprom's Management Committee and General Director of OOO Gazprom Export
Sergey F. Khomyakov	1953	Deputy Chairman of Gazprom's Management Committee and General Director of Gazprom's Corporate Security Service Branch in Moscow
Oleg E. Aksyutin	1967	Head of the Gas Transportation, Underground Storage and Utilization Department
Yaroslav. Y. Golko	1961	Head of the Department of Investment and Construction
Nikolai N. Dubik	1971	Head of the Legal Department

Name	Years of Birth	Position
Viktor V. Ilyushin	1947	Head of the Department for Relations with Regional Authorities of the Russian Federation
Olga P. Pavlova	1953	Head of the Asset Management and Corporate Relations Department
Vasiliy G. Podyuk	1946	Head of the Gas, Gas Condensate and Oil Production Department
Vlada V. Rusakova	1953	Head of the Strategic Development Department
Kirill G. Seleznev	1974	Head of the Gas and Liquid Hydrocarbons Processing and Marketing Department and General Director of OOO Mezhregiongaz
Igor Y. Fedorov	1965	General Director of OOO Gazprom komplektatsiya

No changes were made in the membership of OAO Gazprom Management Committee in 2009. In April 2010 Board of Directors of OAO Gazprom has decided to elect Vsevolod V. Cherepanov, born in 1966, as a member of Management Committee for a five years period. Simultaniously, the authority of Vasiliy G. Podyuk as a member of Management Committee was terminated. In February 2010 Vsevolod V. Cherepanov was appointed as Head of the Gas, Gas Condensate and Oil Production Department replacing Vasiliy G. Podyuk due to his retirement.

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

Key management personnel (the members of the Board of Directors and Management Committee of OAO Gazprom) short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of Group companies, amounted to approximately RR 1,382 and RR 2,056 for the years ended 31 December, 2009 and 2008, respectively. Such amounts include personal income tax and unified social tax. Government officials, who are directors, do not receive remuneration from the Group. The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

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

The Group provided medical insurance and liability insurance for key management personnel.

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

Starting from 2008 OAO Gazprom provides liability insurance for the members of the Board of Directors and Management Committee of OAO Gazprom that ensures the compensation of damage to the shareholders, creditors and other persons incurred as a result of indeliberate erroneous actions (failures to act) of the insured persons when performing management functions.

Liability insurance for key personnel is a generally accepted practice for international companies which can face extraordinary expenses due to third parties' claims, court proceedings that in their turn can have an adverse impact on the financial performance indicators, damage the company's business reputation and image. Relevance of the above insurance for OAO Gazprom is associated with the existing probability of claims that can be made against OAO Gazprom, members of the Board of Directors and Management Committee under the conditions of increasing integration of the company into the world economy, liberalization of OAO Gazprom stock market, changes in the Russian and international law and corporate governance.

Insurance coverage under the liability insurance contract for the members of the Board of Directors and Management Committee of OAO Gazprom is in compliance with the international standards of insurance in terms of the insured risks and indemnity limits. The amount of insurance is U.S.$100 million.

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

As of 31 December, 2009 the total share of the members of the Board of Directors and the Management Committee in OAO Gazprom equity was 0.01410358%.

Corporate governance

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

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

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

Improvement of corporate governance is focused on increasing the information transparency of OAO Gazprom for the benefit of shareholders, increasing the efficiency of internal controls over its operations.

Internal controls

The internal controls in place in OAO Gazprom are focused on ensuring the efficient business operations and obtaining the objective and fair information about the company's financial standing by the shareholders. For the purposes of control over OAO Gazprom business operations the General Meeting of Shareholders elects the Audit Commission that exercises control over preparation of fair financial statements and accounting reports of OAO Gazprom.

Information on the persons elected to the Audit Commission at the General Meeting of Shareholders on 26 June, 2009:

Name	Year of Birth	Position as at 31 December, 2009
Dmitry A. Arkhipov	1975	Chairman of the Audit Committee, First Deputy Head of Management Committee Administration,
Vadim K. Bikulov	1957	Chief Accountant of OOO Gazflot
Rafael V. Ishutin	1971	Head of Department for Internal Audit and Control over Business Operations of Subsidiaries and Organizations of OAO Gazprom Management Committee Administration
Andrey N. Kobzev	1971	Head of Expert and Analytical Department of Federal Agency for State Property Management
Nina V. Lobanova	1955	Head of Tax Policy Department of OAO Gazprom
Svetlana S. Mikhailova	1982	Deputy Head of Corporate and Legal Issues Department of OAO Rosneftegas
Sergey M. Ozerov	1975	Head of Department for Oil Refining of Oil and Gas Division of the Russian Ministry of Energy
Mariya G. Tikhonova	1980	Head of Division, Deputy Director of Department for Economic Regulation and Property Relations in Fuel and Energy Industry of the Russian Ministry of Energy
Olga A. Tulinova	1958	Deputy Head of Control Division of the Russian Ministry of Energy

The Board of Directors elects the Audit Committee of the Board of Directors whose functions include: assessment of OAO Gazprom internal controls efficiency and preparation of recommendations for their improvement, assessment of candidates for the auditors, assessment of the auditor’s opinion.

Information on the members of the Audit Committee of the Board of Directors in 2009:

From membership of the Board of Directors elected at the General Meeting of Shareholders on 27 June, 2008	From membership of the Board of Directors elected at the General Meeting of Shareholders on 26 June, 2009
Sereda Mikhail Leonidovich (Chairman)	Musin Valery Abramovich (Chairman)
Bergmann Burkhard	Gazizullin Farit Rafikovich
Gazizullin Farit Rafikovich	Sereda Mikhail Leonidovich

The auditor of OAO Gazprom performs the audits of OAO Gazprom business operations in accordance with the legal acts of the Russian Federations based on the concluded contract. The auditor is elected by means of tender held in accordance with the Russian legislation. The General Meeting of Shareholders approves the auditor. The Company’s Board of Directors specifies the auditor’s fees.

In 2009 the General Meeting of Shareholders approved ZAO PricewaterhouseCoopers, licence No.E000376, issued by the Russian Ministry of Finance on 20 May, 2002, as the auditor of OAO Gazprom.

The efficiency of control over OAO Gazprom business operations is achieved through cooperation between the Internal Audit Department and the company’s external regulatory bodies. The organizational structure of OAO Gazprom includes the Department of Internal Audit and Control over Business Operations of Subsidiaries and Organizations of OAO Gazprom.

KEY RISK FACTORS

The Group is exposed to a wide range of risks. The risks are managed by the production and functional structural divisions of OAO Gazprom and its subsidiaries by areas of responsibility applying quality and quantity methods of assessment and analysis. To ensure the sustainable development and improving the quality of decision-making in OAO Gazprom the Board of Directors decided to prepare and approve an action plan aimed at developing the corporate risk management system in 2009. The developed action plan provide for consequential performance of three stages:

- development of the conceptual approaches to the corporate risk management system of OAO Gazprom including identification of basic risks and determination of risk management strategy;
- detailed development of the corporate risk management system including preparation of the organizational and functional scheme of risk management;
- implementation of the operating corporate risk management system.

Summarized below are main risk factors that can significantly influence the results of OAO Gazprom, its subsidiaries and the Group as a whole. The risk factors mentioned below should be regarded in conjunction with IFRS consolidated financial statements for the year ended 31 December, 2009.

<u>Strategic and country-specific risks</u>

Risks relating to the global credit crunch developments

Description	Management / influence on the risk level
The global economic crisis has resulted in the decrease of energy resources consumption on the Group's major markets in 2009. Thus, developed and developing economies continue to face the threat of further deterioration, including bankruptcy of key economic entities, growth of unemployment and increased social strain.	To ensure the sustainable financial position Gazprom is implementing a complex action plan on the company's financial strategy. Areas of focus of the above complex plan include the sale of non-core assets, improving the efficiency of Gazprom Group supply system management, developing the corporate risk management system.

Risks relating to operations in the European gas market

Description	Management / influence on the risk level
Gazprom largely sells natural gas in Europe. EU countries are actively pursing the policy of gas market liberalization that contributes in the improvement of competition and increase of spot sales. One of consequence of the above liberalization can be the refusal of a long-term contracts system. In addition, the strategy in the EU energy is focused on the diversification of sources of energy resources supplies, development of alternative energy sources, Disparity of prices under long-term contracts and gas prices at spot markets represent a certain risk for Gazprom.	Gazprom develops new forms of trading in the European market utilizing additional profit opportunities. The Group participates in finding solutions to disputable issues related to the development of the European energy sector; in such a way it supports the system of long-term contracts to be the basis of the business providing guarantees to suppliers and customers. Refusal from the system may disrupt the balance of demand and supply in the European gas market and result in unpredictable consequences, including threat to energy security of importing countries. For the purpose of diversifying its operations Gazprom expands its presence in new markets, including North American, Chinese, Japanese and South Korean markets.

Risks of state regulation in the sector

Description	Management / influence on the risk level
The Russian Federation controls 50.002% of OAO Gazprom's shares. Control over OAO Gazprom's cash flows is exercised by the governmental representatives in the Board of Directors whose powers include the approval of the financial plan and the investment program. In accordance with the Federal Law 'On Natural Monopolies' the Group's gas transportation via pipelines is regulated as natural monopoly operations. The Russian Government regulates wholesale prices for gas which Gazprom applies to the major portion of domestic sales; tariffs for trunk pipeline transportation services provided to independent producers; tariffs for trunk pipeline transportation services via gas distribution networks; charges for procurement and sale services as well as retail prices for gas. In addition, despite the current liberalization, the State is still regulating part of tariffs at electricity market. At the same time the government is interested in the effective development of Gazprom that is one of the largest Russian taxpayers supplying half of primary energy sources in the country.	Gazprom's strategy is aimed at mutually beneficial cooperation with the government so as to ensure the energy security of the country and stable development of the company. The development strategy of OAO Gazprom has been designed and implemented in cooperation with governmental agencies and is an integral part of the Russian Energy Strategy. OAO Gazprom is engaged in an active dialogue with the Government with regard to improving the pricing policy of the government and transition from 2011 to determining wholesale prices for industrial customers by applying the price formula that will gradually bring them to the level ensuring equal profitability of export gas supplies and supplies at domestic market by 2014.

Risks relating to natural gas transit

Description	Management / influence on the risk level
Major volumes of natural gas sold in Europe transit FSU territories, in particular Ukraine, Belarus and Moldova. Unstable political and social situation in transit countries may result in violations of contracted transit arrangements and failure to supply gas under export contracts of OAO Gazprom. Thus, cases were noted when part of Gazprom's natural gas transited through Ukraine was directed to the wrong destinations and in early 2009 Ukraine suspended Russian gas transit via its transportation system.	To mitigate its dependence on transit countries the Group: • is gradually shifting to principles and procedures generally accepted in the global gas business for market pricing of gas imported by FSU and of related gas transit services; • is implementing gas transportation projects aimed at diversifying export routes (Nord Stream and South Stream projects); • is expanding the use of UGSF abroad, is developing the LNG trading. In addition, the Group seeks to develop cooperation in the framework of joint entities involved in operating local gas transportation networks.

Risks associated with entering new regions and new markets

Description	Management / influence on the risk level
A key direction of Gazprom Group's development strategy is the expansion of regions of its operations. Gazprom implements projects related to exploration and production of hydrocarbons in South America, South-East Asia, Africa and Middle East. Potential for entering gas markets of North America is being considered. OAO Gazprom and its subsidiaries shall consider the specifics of energy business development when approaching new regions.	Additional analysis of regional specifics is performed at the feasibility study stage. Subsidiary undertakings and joint companies with foreign partners are established in the new regions for the purpose of obtaining the necessary work experience. Gazprom's representation offices abroad are operating to enhance efficiency of Gazprom's interaction with governmental agencies, enterprises, companies and organisations of corresponding countries and regions. As of 31 December, 2009 13 representation offices of Gazprom are registered abroad, including the People's Republic of China, India, Algeria, Iran as well as Latin American countries.

Risks associated with the development of gas production from unconventional sources

Description	Management / influence on the risk level
Higher prices of natural gas and the progress in science and technology in the last ten years supported the increasing interest to unconventional natural gas resources. In North American countries the share of gas produced from unconventional sources is expected to grow in the long-term perspective. This may result in reduced volumes of LNG imported by the United States and redistribution of released LNG volumes to markets in Europe and North-East Asia increasing competition in these markets. At the same time perspectives of unconventional gas production are still uncertain as such a production is economically viable only when prices are stably high and continued investments are required to maintain the formation productivity.	To support competitiveness of natural gas production and delivery applying traditional methods, Gazprom: • controls investment and running costs of production; • improves and implements new technologies that enhance efficiency of traditional gas production. Russia has large unconventional gas reserves and Gazprom develops technology of their development.

Geographical and climatic risks

Description	Management / influence on the risk level
Climate specifics and geographical location of principal regions where Gazprom operates significantly impact the Group's performance. Gazprom's production in West Siberia accounts for a substantial portion of the overall natural gas production and it is characterized by challenging environmental conditions and high costs. The fields in the Yamal Peninsula and resources of the Russian continental shelf will be developed in even more harsh climates. Gazprom's gas sales and revenues may be significantly affected by climatic conditions of short-term nature. Due to warm winters of recent years gas sales to Europe were decreasing. However, the influence of this factor of a probabilistic nature on Gazprom's gas sale volumes and revenues for the last several years is not significant as the alteration of cold and warm winters compensate the impact.	The Group performs research and implements technological processes developed for harsh climate conditions. The Group also develops and implements programs of improving efficiency of gas production and transportation, including efficiency of gas transportation network. The Group also actively participates in the development and implementation of governmental programs aimed at improving the use of energy resources in Russia.

Risks relating to customs, foreign currency and tax regulation

Description	Management / influence on the risk level
Gazprom is involved in international transactions, it has foreign currency denominated assets and liabilities and foreign currency accounts opened with foreign banks. At the background of ongoing liberalization of foreign currency legislation, the Russian Government and Central Bank of Russia undertook measures to increase control over transactions denominated in foreign currency. Russian tax legislation is subject to frequent changes. Each year, laws are approved to amend the Russian Tax Code and modify procedures to calculate and settle specific taxes.	The Group monitors changes in currency and tax legislation and makes every effort to comply with the requirements following the best law application practice.

Risks relating to changes in rules of customs control and payments in the Russian Federation

Description	Management / influence on the risk level
Operations of the Group relating to export of hydrocarbons are subject to customs regulations. Certain of key issues relating to export supply of natural gas are disputed by the Group and the customs agencies, in	The Group monitors changes in the customs legislation and makes every effort to comply with the requirements following the best law application practice; interacts with regulators regarding disputable issues, including at the

particular the determination of the approach to declaring and collecting customs duties. A number of disputes were challenged by OAO Gazprom/ OOO Gazprom Export in court. The actions of customs agencies were invalidated. In addition, the most disputable matters were submitted by Gazprom for consideration of the Russian Government. Having analyzed the matter in January 2010 the Government called off the decision of the Russian Federal Tariff Service regarding the procedure of documentary support of exported gas. The duty-free treatment of Blue Stream volumes was rehabilitated as well as the procedure of deducting price discounts from the customs amount. To avoid the risk of similar claims from customs agencies and potential outflow of significant financial resources from the Group, it is necessary that the Customs Code of the Customs Union (effective from 1 July, 2010) incorporate the effective Russian customs legislation.	level of the Russian Government. Proposals were made to the Customs Union Commission to amend the Union Code to make it compliant with the Russian customs legislation. The Group also uses all possible ways to protect its interests, including applying to court.

<u>Financial risks</u>

Foreign exchange risks, interest rate and inflation risks

Description	**Management / influence on the risk level**
More than half of Gazprom's sales revenue is denominated in U.S.$ and euro, while most of the costs are denominated in RR. A part of OAO Gazprom debt portfolio is represented by syndicated loans from Western banks. The interest rate on many of these loans is based on LIBOR/EURIBOR rates. Therefore, changes in inflation rates and exchange rates significantly affect the Group's performance results.	Developing a methodology and contractual base for using hedging instruments in accordance with the requirements of the Russian legislation. Natural hedging of risks associated with market changes in the foreign exchange rates and interest-bearing payments by: • calculating net currency position of Gazprom Group and balancing the cash flows of OAO Gazprom in terms of currency, volumes and period of receipt/payment; • maintaining the currency balance in OAO Gazprom debt portfolio similar to the proportion of currency in the company's revenue.

Credit and liquidity risks

Description	Management / influence on the risk level
The limited ability of certain customers in Russia and abroad to provide cash payments for natural gas supplied by the Group can have an adverse impact on Gazprom operations. Up to date, the receivables from a part of customers from Russia and FSU countries for natural gas previously supplied are not settled in full, and Gazprom does not have guarantees that the above receivables will be fully paid in cash. Recently, the situation with payments for the gas supplied significantly improved, a share of cash payments in Gazprom revenue has significantly increased to 95%. However, the deterioration in the business environment can result in failure of a number of customers to make payments for the gas supplied in cash and on the due date.	The Group pursues a transparent policy requiring fulfilment of contractual obligations regarding payments for supplies and non-payers. With regard to the major non-payers in a number of FSU countries the mutually acceptable financial vehicles related to outstanding receivables settlement including those by means of government securities have been developed. All counterparties engaged in gas supplies to far abroad countries are assigned with an internal credit rating (according to the adopted methodology of credit risks assessments). Based on the evaluation of counterparties' creditworthiness and Monte Carlo modelling the credit risks are quantitatively assessed by applying CreditVaR method. The basic tools to manage credit risks associated with gas supplies to far abroad countries include preparation of a list of authorised counterparties, with which the deals can be concluded and the requirement to provide the guarantees from the counterparties with low credit rating. The Group monitors the changes in the internal credit rating of these counterparties on a daily basis and if they significantly decline, the respective contracts may be amended to mitigate non-payment risks. OAO Gazprom has a system of the centralized management of intragroup liquidity based on a virtual pool of cash funds of Gazprom Group participants. In addition, the Group is implementing a project on creating international cash pools in partnership with foreign subsidiaries of OAO Gazprom. A system of operational control over cash flows on Gazprom Group accounts considering the adopted restricted card lists related to the credit agencies has been developed. A system of monitoring the financial positions of banks that provide services to Gazprom Group for the purposes of their rating and immediate reviewing the specified limits has been developed. Bank accounts and bill portfolio of the Group's companies are being monitored.

Market risks including risks associated with decrease in volumes and cost of gas sold at foreign markets

Description	Management / influence on the risk level
Export sales of gas generate a major portion of the Group's revenue. Gas is exported under long-term contracts at prices linked to the world prices for major core products. Therefore, there arise risks of failure to receive the planned revenue (export price of commercial gas) or adverse change in the portfolio cost due to market factors effects. Price risks associated with fluctuations of prices for oil products and gas indices which are the basis for prices calculation under export contracts and risks of volume associated with the fact that the buyers are provided with certain flexibility in gas withdrawal are the basic factors of market risk.	Earnings at Risk (EaR) assessment is the basic method applied for quantitative assessment of market risks associated with gas sales to far abroad countries. For these purposes the probable scenarios of the portfolio are modelled considering the current contractual conditions and history of changes in risk factors related to prices and volumes. For the purposes of risk management the changes in the contractual conditions or conclusion of new contracts, identification of the affirmatively authorized deals and financial instruments and accordingly, counterparties with which these deals can be concluded, represent the main tool of the internal optimization. Currently, a major part of long-term contracts include "take-or-pay" conditions, which stipulate an advance payment against gas supply in subsequent period if the gas is not taken in the current year. In addition, the opportunities provided by the liberalized gas markets can be used as tools of operating optimization.

<u>Operating risks</u>

Risks relating to non-extension of subsoil licenses

Description	Management / influence on the risk level
The Group operates in compliance with subsoil licenses for exploration and production of hydrocarbons. Most licenses provide for an opportunity to suspend, amend or withdraw them if the requirements of license agreements are not complied with. Licenses for production at major Group fields cover the period to 2012-2028. The Russian legislation provides for an opportunity to extend the licenses but do not provide the license holder with vested right of extension.	Gazprom satisfies license requirements and takes all required steps to minimize the probability of license withdrawal, suspension or amendment.

Cost escalation risks

Description	Management / influence on the risk level
During the pre-crisis years growth rates related to unit costs of capital construction in petroleum industry exceeded the inflation rates due to increase in prices of raw materials, component parts, services including prices of metals, gas-compressor plants, drilling costs, etc. Drop in raw prices at global commodity markets due to global economic crisis and increased level of competition can result in the decrease in capital and operating costs. However, this decrease may be not significant as a lot of the Group's suppliers use import component parts and equipment, which prices can significantly increase because of RR devaluation.	Gazprom organizes tenders to select suppliers and directly works with its suppliers.

Technological risks

Description	Management / influence on the risk level
OAO Gazprom upstream and downstream activity can be associated with unfavorable impact of various factors, including equipment failure or breakdown, operating procedures problems, decrease in performance indicators below the expected production and efficiency levels.	The unified gas supply system ensures the system reliability of gas supplies assuming that in case of a failure at one of its sections gas can be supplied via other routes by means of technological and intersystem shunt pipes. Stability of the system operation is ensured by implementation of the advanced diagnostic technique, reconstruction and upgrading. OAO Gazprom has developed, approved and is implementing the policy on HSEA aimed at ensuring occupational safety, life and health safety of OAO Gazprom's and its subsidiaries' employees and operational reliability of hazardous production facilities. To ensure the substantial operations of OAO Gazprom and its subsidiaries and minimize the financial resources directed to the mitigation of consequences resulting from natural and technogenic accidents and other unfavorable events the Group arranges a complex insurance coverage of the Group's companies including property insurance program (including off-shore facilities), insurance against production breaks at gas processing plants, insurance of hazardous facility operator's liability.

Risks associated with assessment of hydrocarbon reserves

Description	Management / influence on the risk level
The Group's development plans are based on the amount and location of hydrocarbon reserves that are assessed in accordance with scientifically grounded and generally accepted standards. However, these assessments are associated with significant uncertainties. Accuracy of reserves assessments depends on the quality of available information and technological and geological interpretation. At the same time the regions where a significant part of the Group's reserves are located, are well explored that reduce these risks.	The results of Group Gazprom reserves assessment in accordance with the Russian classification of reserves are recorded on the balance sheet after annual consideration and approval by the State Reserves Commission. OAO Gazprom has developed and implements the procedures on reserves assessment in accordance with the international standards PRMS engaging an independent appraiser.

Risks associated with vertical integration and diversification of operations

Description	Management / influence on the risk level
Over recent five years Gazprom significantly expanded oil business through acquisition of OAO Gazprom neft, joined electricity generation and sales business. Gazprom also expands its activities at foreign markets of natural gas by applying new form of trading, develops business related to LNG production and sales. Any failure in integration of past or future acquisitions may have an adverse impact on the Group's business, financial position and performance results.	The Group improves the internal corporate governance structure for the purposes of: • breaking down the financial flows by types of activities; • enhancing the efficiency OAO Gazprom activity as a vertically integrated company. The Group also performs actions to bring the organizational structures of its subsidiaries engaged in gas production, transportation and processing into compliance with the corporate requirements of OAO Gazprom including the adopted standards of personnel number and corporate span of control. The effective management procedures and projects on enhancing the efficiency of OAO Gazprom and its subsidiaries operations management, which are currently being implemented by the Group will also cover the Group's entities that exercise a significant influence on the Gazprom's performance results. In accordance with the strategy on information system development the Group takes actions to create a unified information space. Currently, the projects on creating vertically integrated management systems based on the corporate data bank to support the managerial process related to gas business, computerized budget management system and computerized consolidated accounting reporting system of OAO Gazprom are actively implementing. The above work will enable to improve the transparency of corporate reporting preparation from the primary data sources to key performance indicators and risks.

Environmental risks

Description	Management / influence on the risk level
Gazprom Group production activity is associated with the use of natural resources and accordingly, involves a potential risk of environmental disruption and damage to human health. Environmental damage or pollution may result in: • legal consequence, including bringing to responsibility; • finance costs associated with payments of fines and compensations of the incurred damage in full; • damage to the company's business reputation.	Gazprom Group pursues a consistent environmental policy, develops environmental management system in compliance with ISO 14001, develops and improves own ecological standards, implements programs and actions to reduce environmental effect, provides the financing for environmental activity, implements advanced resource-conservative and energy-conservative and other environmental protection technology. OAO Gazprom also performs environment impact assessments of projects and monitors the environmental effects of its operations and other activities. At all stages of construction, operation and decommissioning of assets the company exercises a control over compliance with legislation and corporate environmental standards. Insurance of the entities' environmental risks enables to ensure full and immediate compensation of the incurred costs without using the entities' own reserve funds in case of adverse impact on the environment.

BRANCHES AND REPRESENTATIVE OFFICES OF OAO GAZPROM

Below is the information on branches and representations of OAO Gazprom as of 31 December, 2009.

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

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 barrel of crude oil	0.1364 metric ton of crude oil
1 barrel of gas condensate	0.1222 metric ton of gas condensate
1 kilometer	Approximately 0.62 miles
1 ton of fuel equivalent	867 cm of natural gas, 0.7 ton of gas condensate, 0.7 ton of crude oil
1 mcm of natural gas	1.154 ton of fuel equivalent
1 barrel of gas condensate	1 barrel of oil equivalent (boe)
1 mcm of natural gas	5.89 barrels of oil equivalent (boe)

GLOSSARY OF MAJOR TERMS AND ABBREVIATIONS

Terms and abbreviations	Description
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. Equivalent of four ordinary shares of OAO Gazprom
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
Baltic countries	Latvia, Lithuania, Estonia
boe	Barrel of oil equivalent
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 C2 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 C2 reserves are preliminary estimated reserves and represent a basis for exploration work at a particular field.
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
EU	European Union
EURIBOR	Euro Interbank Offered Rate
Europe	For the purposes of the Report includes Western and Central Europe
Europe and other countries	Countries other than Russia and the FSU countries.
FSU	Former Soviet Union republics, except for the Russian Federation
FTS of Russia	Federal Tariff Service
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
Gazprom Group, Group, Gazprom	An aggregate of entities which includes OAO Gazprom (Head Office) and its subsidiaries
GPC	Gas processing complex
GTS	Gas Transportation System

IFRS	International Financial Reporting Standards accepted in EU
Jointly-controlled company	Jointly controlled company is an entities which is jointly controlled by two or more parties
kWh	Kilowatt-hour
LIBOR	London Interbank Offered Rate
LNG	Liquefied natural gas
LSE	London Stock Exchange
MICEX	Moscow Interbank Currency Exchange
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
Return on invested capital	Calculated as operating and non-operating profit before interest, net of income tax to the average invested capital. Average invested capital is calculated as the average of equity and debt at the beginning and at the end of year. The calculation is performed based on target budget amounts upon planning and reports on budget fulfillment upon determination of actual numbers.
RR	Russian Rouble
SPE-PRMS Standards	International classification and assessment of hydrocarbon reserves under PRMS (Petroleum Resources Management System). These standards do not only include the assessment of physical presence of hydrocarbons but also provide the economic viability of recovering the reserves and consider the period of commercial development of fields (term of development license).
SRTO-Torzhok	Gas pipeline from Nothern parts of Tyumen region to Torzhok
ton	Metric ton
Total debt	Long-term and short-term loans and borrowings, long-term and short-term promissory notes, restructured tax payable
UGSF	Underground Gas Storage Facility
UGSS	Unified Gas Supply System of Russia
U.S.$	The United States Dollars
VAT	Value Added Tax
Western Europe	Austria, Andorra, Belgium, Germany, Greenland, Greece, Denmark, Republic of Ireland, Iceland, Spain, Italy, Cyprus, Liechtenstein, Luxembourg, Malta, Monaco, The Netherlands, Norway, Portugal, San Marino, the United Kingdom and Republic of Ireland, Turkey, Finland, France, Switzerland, Sweden

ADDRESSES AND CONTACTS

Full name: Open Joint Stock Company Gazprom.

Abbreviated name: OAO Gazprom

Location**:** 16, Nametkina str. Moscow, Russian Federation.
Mailing address: 16, Nametkina str. Moscow, GSP-7, 117997 .
Phone: +7 (495) 719-30-01 (information). Fax: +7 (495) 719-83-33

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: Olga Igorevna Borodina
Phone: +7 (495) 719-27-86, 719-26-01. Fax: +7 (495) 719-39-37.

E-mail: O.Borodina@adm.gazprom.ru

Department for Relations with Investors: Andrei Vitalievich Baranov
Phone: +7 (495) 719-25-89. Fax: +7 (495) 719-35-41.

E-mail: A.Baranov@adm.gazprom.ru

Auditor of OAO Gazprom: ZAO PricewaterhouseCoopers Audit

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

Member of non-profit partnership «Audit Chamber of Russia» (NP ACR) being a self-regulatory organization of auditors – registration number 870 in the register of NP ACR members. Major registration record number (ORNZ) in the register of auditors and audit organizations 10201003683.

Location and mailing address: White Square Office Center, 10 Butyrsky Val, Moscow 115054 Russian Federation.
Phone: +7 (495) 967-60-00. Fax: +7 (495) 967-60-01.

Registrar: Close Joint Stock Company Specialized Registrar – Holder of the register of gas industry (ZAO SR-DRAG).
Location and mailing address: 71/32, Novocheryumushkinskaya str., Moscow 117420 Russian Federation.
Phone: +7 (495) 719-39-29. Fax: +7 (495) 719-45-85.

Depository bank (ADR of OAO Gazprom): The Bank of New York Mellon
Phone (the US only): 1-888-BNY-ADRS (1-888-269-2377).
Phone (other countries): 201-680-6825.
E-mail: shrrelations@bnymellon.com
Web site: www.bnymellon.com/shareowner