

Gazprom's annual general shareholders' meeting to convene 30 June 2006

GAZPROM — STRATEGY FOR THE ENERGY SECTOR LEADERSHIP



Alexey Miller, the Chairman of the Management committee

Dear Shareholders, Colleagues and Partners,

On behalf of the Management Committee of the Gazprom Open Joint-Stock Company and myself, let me greet you at the Annual General Shareholders' Meeting.

You have been provided with abundant factual material on the performance of Gazprom and its subsidiaries in 2005: Annual Report, Accounting Statements, Report by the Audit Commission, Auditor's Report and other materials.

The Shareholders' Meeting is supposed to approve:

- OAO Gazprom Annual Report for 2005 OAO Gazprom Annual Accounting Statements
- Distribution of profit, as well as proposals by the Board of Directors on the amount of, time for and form of payment of annual dividend based on the results of 2005.
- The Meeting is also supposed to approve the remuneration of the Board of Directors and Audit Commission. The amount of remuneration is set out in the materials handed in to you.
- ZAO PricewaterhouseCoopers Audit, the winner of the open bidding among auditing companies, is proposed to be approved as the Auditor responsible for performing statutory annual audit of OAO Gazprom Accounting Statements.

Dear Shareholders,

The year 2005 has become another year of the hydrocarbons price growth in the global markets. We can assert that the epoch of cheap energy has finalized. The intensified struggle for control over oil and gas resources has been witnessed. The LNG production and marketing infrastructure has undergone aggressive development. This year has been a period of deeper gas market globalization.

Our Company builds on its activities taking into account all these trends. Gazprom consecutively develops as a global energy company. Our goal is to be a leader on the global oil and gas market.

The key principles of Gazprom strategy include a wide diversification of the core businesses – namely gas, oil and power generation, and a reinforcement of the vertical integration.

Implementation of this strategy has so far yielded its fruits. Gazprom is on the rise and develops in a very dynamic way. This relates to absolutely all business sectors of the corporate activity.

Dear Shareholders,

The Company value growth is the most vivid indication of Gazprom dynamic development in 2005. Over the reporting period, the price of the Company's shares has increased more than 2.5-fold, a great deal bigger gain on the stock indexes. As a result, Gazprom has become a strong global energy leader in terms of market capitalization.

In 2005 we have completed shaping the share capital structure being strictly in line with the Gazprom development strategy. The Russian state has become holder of the Company's controlling stake.

Boosting the state's share of Gazprom fully fits with the topical industry trends. Ongoing global competition to gain control over hydrocarbon reserves has shown that state owned and backed companies have considerable advantages in obtaining dominating positions on international markets. Integration of state and commercial approaches enables to ensure a long-term planning based on prospective gas balance on the national and international scale. Gazprom combines successfully the advantages of transnational energy giants with the beneficial features of national state owned companies.

Dear Shareholders,

In 2005 the Gazprom share market has been liberalized, with legislation passed to lift all the restrictions on domestic and foreign ownership of Gazprom shares. This move has led to the adjustment of prices of Gazprom shares and American Depositary Receipts, and established an environment for new high-class investors to become Gazprom stockholders.

In 2005 Gazprom has once again posted the record high financial & economic achievements, which also has driven the capitalization growth.

The Gazprom consolidated earnings have risen 38.8 per cent to RUR 1 trillion 231.3 billion, with the net profit topping RUR 203 billion. The high financial results have allowed us to increase the amount of dividend payable based on the 2005 performance.

The Board of Directors recommends paying out RUR 1.50 per share in dividends, which is more than 26 per cent higher than in 2004.

Last year Gazprom successfully placed several large bond issues and considerably reduced the value of financial borrowings.

Throughout 2005 we have continued endeavoring to optimize the debt portfolio structure, in particular to reduce the share of credits secured by the release of export proceeds and to boost the share of long-term borrowing instruments. Thus, over the year the share of collateralized credits in the Gazprom credit/loan structure has shrunk from 33.6 per cent to 14.6 per cent.

In 2005 the leading international rating agencies have upgraded the Company's credit rating.

Dear Shareholders,

Gazprom successful performance in 2005 has been achieved by the consistent efforts aimed at expanding the resource base, boosting natural gas production and developing gas transmission and storage capacities.

In 2005 the gas production has grown by 2.8 billion cubic meters. The Gazprom Group of companies produced 547.9 billion cubic meters. Over the five years we have increased our annual gas output by an amount that is comparable to the overall consumption of a country like Argentina.

The past anomalously cold winter highlighted a very strong gas production potential of Gazprom. Our operating results during the peak demand season indicate that the actual extraction capacities of Gazprom exceed 600 billion cubic meters per year.

Basing on the long-term balance of gas, our corporate documents outline the field exploration and development sequence up to 2015. This allows us to implement our operating policy through the market-driven mechanisms, and gives us a solid foundation for the dialogue with our customers.

Dear Shareholders,

Further development of the mineral resource base remains a top priority of Gazprom business activity. In 2005, Gazprom has broken all records in the reserves growth since 1993, with an increment of over 583.4 billion cubic meters. The new reserves exceeded the annual gas production by more than 35 billion cubic meters. This means that out of 2005 reserves growth alone, Gazprom could supply with natural gas a country like Germany for 15 years.

Thus, Gazprom is one of the few companies worldwide, which can increase the hydrocarbons production without reducing its available reserves and keep building up the resource base. While most companies face the problem of "Where are we to get our gas?", for Gazprom the question has always been "When is it best to get our gas?"

The resource base of Gazprom today includes more than 29 trillion cubic meters of explored natural gas reserves and over 1.2 billion tons of gas condensate. With acquisition of Sibneft our oil reserves have grown to 1.36 billion tons. This is a powerful resource serving as a foundation for Gazprom development strategy.

Auditing of Gazprom reserves is carried out annually. In such a way we ensure full awareness for our partners and investors in the high quality of the resource base of Gazprom.

The volume of the reserves and growing production volumes in Gazprom place high demands on the gas transmission and storage system, which is owned and operated by our Company.

The Unified Gas Supply System (UGSS) is a unique technical complex. It was designed, constructed and developed as an integrated system, controlled from a single center and able to respond flexibly to any technogenic, market or climatic factors.

The system enjoys a significant reliability margin and is capable to ensure continuous gas delivery from the well-head to the final consumer, including the periods of seasonal peak demand.

Gazprom has raised its capital investments over three times in the preceding years; annual investments amount to \$US 10-11 billion. Presently, gas transmission is a priority in our investment program. Indeed, the focal point is to bring the produced gas to the consumer. Moreover, the transmission sector in itself is much more capital-intensive by its characteristics as compared to the production sector. This is the reason for Gazprom current investment into gas transmission being about two times higher than in the production segment. Major capital investments in the gas transmission system development are directed first of all into construction of the Yamal – Europe gas pipeline, North Tyumen (SRTU) – Torzhok and Pochinki – Izobilnoye pipelines, as well as into expansion of the Urengoy gas transmission hub.

In the year of report, 1,400 km of the gas mains and branch lines, 8 pipeline and UGS compressor stations have been commissioned, adding 1.86 billion cubic meters to the active capacity of the underground gas storage facilities.

Dear shareholders,

The year of 2005 was marked for Gazprom by a real breakthrough into the realm of oil production, oil refining and power generation. These were the steps in implementation of the strategic course for diversification of the OAO Gazprom lines of business and for its transformation into a diversified energy company.

Gazprom acquired a 72.66 per cent stake in OAO Sibneft in October 2005. The sum of transaction was \$US 13 billion. The Gazprom Group share in the authorized capital of Sibneft amounted to 75.68 per cent as of the end of 2005.

Having acquired Sibneft – the title altered now to Gazpromneft – we have doubled our oil resources and tripled the capacities for the liquid hydrocarbons production. This is a good foundation for the follow-on development of Gazprom oil business.

Further development of the oil sector will be based on the vertical integration principle. The goal is to raise the annual oil production to 80 million tons by 2020. These activities will facilitate more intensive use of the oil reserves secured earlier by Gazprom via step-by-step putting on stream of all the explored oil reserves. The strategy of oil business development stipulates also enlargement of the resource base by way of intensifying the exploration activities.

In 2005, Gazprom increased its capabilities for refining of the liquid hydrocarbons. Acquisition of Sibneft resulted in the increment of our refining capacity by 19.5 million tons per year.

It should be stressed here that Gazprom will further intensify its activities in the petrochemicals sector, including production of synthetic liquid fuels. Increase of the deep-processing products share is an important component in the Company development strategy, which will improve the efficiency of our business.

This goal will be also achieved by locating of the deep-processing facilities closer to the resource base. It is an objective trend in the modern oil and gas industry. Gazprom listed this activity a major task of its strategic development.

Dear shareholders,

Diversification of assets and spheres of activities at Gazprom are achieved also thanks to expanded participation in the electrical power sector.

In 2004-2005 Gazprom acquired a 10 per cent stake in RAO UES of Russia and the blocking minority share in Mosenergo, the most important subsidiary of RAO UES. Gazprom plans to participate in investment projects for construction and modernization of power plants at the territory of the Russian Federation and abroad.

The power industry sector is becoming a core business for Gazprom, and ensures a significant synergetic effect. Upgrade of the generating capacities and improvement of their efficiency makes it possible to re-allocate a significant amount of gas currently used in the Russian power production not efficiently enough. In

particular, electricity generation using coal and nuclear plants can help to release the additional volumes of gas now supplied to the domestic market in favor of the exports. In this context, Gazprom is the most efficient investor in the Russian power industry.

In 2005, the second phase of the Gazprom Group reform began. Its goals are to establish a modern organizational structure of the Company, to increase the degree of its vertical integration, and to strengthen the integrated center management system.

The second phase of the reform is to be completed by 2008. Every subsidiary company will focus on a single core business, for example: gas production, oil production or gas transmission. As a result, the financial flows in Gazprom will become more transparent ones. The companies to be set in the process of the reform according to their core businesses, will be 100 per cent Gazprom owned subsidiaries. Gazprom is and will remain a structure with the single integrated decision-making center, the common development strategy and the capability of value adding through the entire gas chain.

The major share (some two thirds) of the gas produced by Gazprom is marketed in Russia. Gazprom is increasing steadily its gas sales at the domestic market. Such gas sales amounted to 307 billion cubic meters in 2005, as compared to 305.7 billion cubic meters in 2004.

The Gasification program of the RF regions for 2005-2007 is the major socially-oriented project of Gazprom. The amount of investments here will be RUR 35 billion. Implementation of the Gasification program will raise Russia gasification level from 54 per cent as of 2006 up to 60 per cent by 2008. Additional 11 million Russian citizens will be able to use the natural gas.

Favorable conditions have been created today for solving the problems of the domestic market development. Gazprom is preparing solutions for liberalization of the gas market for the commercial consumers. Application of stock exchange technologies and long-term contracts for gas supply to the industrial consumers will help to remove the existing imbalance between the natural gas and alternative fuels.

Competition of primary energy sources is a must for Russia! Existing adjustable wholesale prices are set below the economically justifiable level, and ignore the prices for the market-based alternative fuels and net environmental and technological advantages of natural gas. Such a pricing system secures existing disproportion of prices of the fuel resources, irrational structure of the fuel and energy mix and inefficiency of market operations for Gazprom in Russia. At 2005 year-end the Company loss from gas deliveries to the domestic market amounted to RUR 8 billion.

Domestic market gas prices should encourage the consumers to improve efficiency of the gas use, to promote creation and development of competition between alternative fuels and to facilitate formation of an optimal balance between the prices for gas, coal and residual fuel.

Future gas deliveries to the domestic market should be as attractive as the deliveries to the European markets.

Dear shareholders,

The year of 2005 is featured with intensification of work with the EU republics. Business relations with them are arranged and will be arranged under the same principles as the relations with the West European countries.

Gazprom gas sales to the CIS and Baltic states amounted to 76.6 billion cubic meters in the reported year. And this gas should be sold at prices formed under the influence of market factors and market mechanisms exclusively. Gazprom will follow unfailingly the policy of improvement of the business activity efficiency.

A switch to market pricing is no picnic at all. And not always we can see the readiness to adequately respond to unavoidable difficulties.

Dear shareholders,

In pursuit of its strategic goal – to create a global leading power company - Gazprom expands its presence in the international markets. The company performs surveying and prospecting for the hydrocarbons in Vietnam, India, Venezuela and Uzbekistan. Also we make assessments for perspective projects in Tajikistan, Kirgizya, Libya, Algeria, Iran and other countries. Our task is to arrange work along the whole length of the chain - from production to sales of hydrocarbons - in the new markets and on the basis of new production

capacities outside Russia. In the near future we shall carry out organizational procedures to streamline our international projects according to the standard world-wide practice.

Cooperation with the countries of the Central Asia is of great importance for Gazprom. Our interaction develops in such directions as purchase and transit of gas, gas production projects and establishment of joint ventures.

The Central Asia – Center joint program, the one we have announced two years ago, makes good progress.

Last year Gazprom signed a package of mid-term contracts on transportation of the Russian and Central Asian gas via the territory of Kazakhstan, as well as the Mid-term agreement on transportation of natural gas via the territory of Uzbekistan. For the first time such arrangements have a lasting character, they cover the whole length of the gas transit route from Central Asia. Such agreements considerably increase the reliability of performance of our obligations on the natural gas supplies.

Further expansion of a large-scale oil business by Gazprom also creates new opportunities for a mutually beneficial cooperation with the former USSR republics in various segments of the value chain, including production, processing and export of crude oil, as well as wholesale and retail selling of oil products.

Dear shareholders,

In 2005, Gazprom received a successful experience in the field of liquefied natural gas trade. LNG means new markets for Gazprom, it is a new product and a new area in the hydrocarbons processing.

Strategy of a Gazprom envisages a stepwise entry in the world LNG market. At the first stage of work of the company in this market we plan to implement spot deliveries of LNG of non-Russian origin, including swap operations with the pipe gas. This process has already begun. In September 2005, the company has carried out delivery of first LNG batch to the North America market.

The second stage will involve sales of Russia-produced LNG in the world market, which can really occur after 2010.

Today Gazprom negotiates possible conclusion of the mid-term agreements with the leading players of the world LNG market, which can facilitate a more close cooperation in production and trade of this product.

The world economy needs ever more energy. Demand is on the rise for all kinds of fuels, and for the natural gas especially. Emerging new economic centers demonstrate a high rate of industrial growth and a steady increase of demand for oil and gas.

Competition for access to the energy resources will increase between the three largest gas markets: Europe, Asia-Pacific and North America. In this environment the long-term contracts which allow us to plan activities on the basis of a perspective gas balance, manifest a most realistic approach to strengthening of the energy security.

The natural gas market has shaped itself as the sellers' market by now. Therefore the gas sellers have an opportunity to choose their partners and the prospective markets, with account of their capacity and profitability of operations; also to streamline their perspective strategy of marketing with account of an available operational experience in this or that market and the opportunities for long-term cooperation. So Gazprom prepares its gas balance basis for the future and the gas production plans in accordance with the needs of only those partners who had concluded respective long-term contracts already today. The gas will not be produced until it is sold.

Now the natural gas share in the fuel basket of the countries of the Asian-Pacific region is small - some 10 per cent. However, the highest rate of growth in the gas demand is forecasted here for the near 15 years. The forecasted tempo of growth in the ASPAC region is twice as high as that in Europe.

Our counterparts from the countries of Asia show their readiness to rely on the gas from Russia. What relates to supplies to China - potentially the most capacious market in Asia - we are at the stage of commercial negotiations already.

Two routes for gas supply to China were approved – the western and the eastern ones. Deliveries will begin in 2011. The annual volume will be 68 billion cubic meters. Priority is given to the western route, able to supply 30 billion cubic meters of gas annually.

Gazprom prepares now a feasibility study for investments in this project. Resource base for gas deliveries along the western route will include the West Siberia gas fields, located close to the operational gas infrastructure – which will allow us to begin supplies in the very near time. Here, a point of principal importance for us is that deliveries will be done using a single integrated export channel and with the prices established on the basis of the crude oil cocktail.

For Gazprom, Europe remains the primary export market. The Russian gas has been supplied to Europe for over thirty years now. 156.1 billion cubic meters of gas were sold in the countries of the Europe in 2005. It was 2.9 billion cubic meters more, than in 2004. In Europe we have well-established partnerships, and our major transport capacities are allocated to this region.

As usual, Gazprom provides for more than a quarter of the natural gas supply for the European consumers. And we intend to fortify our lead positions at the European continent. We have every opportunity to carry out in full our obligations in the Europe, and to develop in parallel a prospective cooperation with the companies from the countries of Asia-Pacific and North America.

Dear shareholders,

In the international activity area, Gazprom accelerated work on formation of transnational chains encompassing the complete cycle “from production to sales”, using various organizational and legal forms as well as swapping of assets. Our partnership with BASF company of Germany for development of the Yuzhno-Russkoye field is an example of such cooperation.

Gazprom and BASF have signed the Memorandum of understanding and the Basic conditions for the assets swap deal. The corresponding agreement was signed this April. The German party will get 25 per cent of shares (minus one) and a package of the non-voting shares in Severneftegazprom company, the license holder for the Yuzhno-Russkoye field. In its turn, Gazprom will increase its shareholding in Wingas – which sells natural gas to final customers in Germany - from 35 per cent up to 50 per cent of shares (minus one). A joint venture will be established on an equal footing to operate in the European markets of gas outside Germany. Above that, Gazprom will get a share in the capital of a Wintershall Group company with shareholding in the exploration and production assets in Libya.

In this project the Gazprom is an active participant in all segments of business - from production to sale of the natural gas to the final customer. This brings new quality to our international activities. Our international partners get access to development of our gas reserves, and we get access to the gas sales in Europe.

Expanding new forms of co-operation, Gazprom retains its adherence to the main principles its international activities and the gas export strategy. A cornerstone principle of the export strategy of the company is to retain the single integrated gas export channel.

The year 2005 will enter the history as the time when we began construction of the North-European Gas Pipeline. Today it is the largest international gas transport project. Its value is determined not only by the technical parameters, but also by the influence which it will render on the gas streams configuration in Europe.

NEGP will allow us to integrate the Gazprom transport capacities with the European gas-transport network directly. This will provide a significant decrease in commercial, technological and political risks in the gas transit zones. The North-European Gas Pipeline fully meets the highest requirements in such aspects as engineering solutions, reliability and maintainability, environment protection and economic efficiency.

The Blue Stream gas pipeline has achieved its design throughput capacity in 2005. Now it is a fully ready gas transport corridor for implementation of follow-on projects. In our export plans, Gazprom considers organization of the Russian gas supply via Turkey as a prospective opportunity which can transform Turkey into a bridge for transit between Russia and Europe.

It is possible to arrange gas supplies to Greece, South Italy and Israel across the territory of Turkey. A new route for the gas supply is being developed now - the one via the countries of East and Central Europe. The interim title of the project is the South-European Gas Pipeline. The main issue here is to establish a new gas transmission system, both from Russian origin and from the third countries.

Diversification of the gas transportation routes combined with an increase of the gas supply security represent a common element in the strategy of Gazprom and the European Union member states.

Dear shareholders,

A unique resource base, an enormous industrial potential, strong market positions and an active business development policy - all this will make Gazprom the company number one in the global energy market.

Thank you for attention!