

**OPEN JOINT STOCK COMPANY GAZPROM**  
**1999 CONSOLIDATED FINANCIAL REPORTS**

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**TRANSLATOR'S EXPLANATORY NOTE: The above translation is provided as a free translation from Russian, which is the official and binding version.**

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## AUDIT REPORT

General audit license No. 016153 issued by the Central Attesting and Licensing Audit Committee of the Ministry of Finance of the Russian Federation on 23 November 1999. The license is valid until 24 June 2002.

State registration certificate No. 008.890 was issued by the Moscow Registration Bureau on 28 February 1992.

Settlement account No. 407 028 104 000 010 012 93 at the commercial bank ING Bank Eurasia, bank correspondent No. 301 018 105 000 000 002 22, BIK 044 52 52 22, INN 770 505 11 02.

The audit was carried out with participation of the statutory auditor S.A. Blokhin.

**AUDIT FIRM'S OPINION**  
**on the 1999 Consolidated Financial Reports of open joint stock company Gazprom**

**To the shareholders of open joint stock company Gazprom:**

1. We have audited the attached 1999 Consolidated Financial Reports of open joint stock company Gazprom and its principal subsidiary and associated undertakings (collectively, the "Group") which comprise the Consolidated Balance Sheet as at 31 December 1999, the Consolidated Statement of Income for the year ended 31 December 1999 and the Notes to the Consolidated Financial Reports (together, the "Consolidated Financial Reports"). These Consolidated Financial Reports were prepared by the management of OAO Gazprom in accordance with the Federal Law on Accounting and Regulation on Accounting and Reporting adopted by Decree No. 34H of the Ministry of Finance of the Russian Federation dated 29 July 1998, and the methodology recommendations on preparing consolidated accounting reports approved by Order No. 112 of the Ministry of Finance of the Russian Federation dated 30 December 1996. Such Consolidated Financial Reports differ to a significant extent from those prepared in accordance with International Accounting Standards.
2. Preparation of the Consolidated Financial Reports is the responsibility of the management of OAO "Gazprom". Our responsibility is to express our opinion on the Consolidated Financial Reports based on our audit.
3. We conducted our audit in accordance with the Temporary Rules of Audit Activity in the Russian Federation adopted by Decree No. 2263 of the President of the Russian Federation dated 22 December 1993, in accordance with Russian Auditing Standards issued by the Presidential Audit Committee and in accordance with International Standards on Auditing ("ISA"). Russian Auditing Standards and ISA require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Reports are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the Consolidated Financial Reports. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Consolidated Financial Reports presentation in order to ensure compliance with laws and regulations of the Russian Federation. We believe that our audit provides a reasonable basis for our opinion.

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4. In our opinion, the Consolidated Financial Reports attached to this report have been properly prepared to present in all material respects the assets and liabilities of the Group as at 31 December 1999 and the results of its operations for the year ended 31 December 1999 in accordance with the Federal Law on Accounting and Regulation on Accounting and Reporting in the Russian Federation adopted by Decree No. 34H of the Ministry of Finance of the Russian Federation dated 29 July 1998, and the methodology recommendations on preparing consolidated accounting reports approved by Order No. 112 of the Ministry of Finance of the Russian Federation dated 30 December 1996.
5. Without qualifying our opinion, we draw your attention to the fact that the operations of the Group have been affected by instability in the Russian Federation's economy and may continue to be so affected in the foreseeable future.

Director of ZAO

R.D. Paterson

Statutory Auditor

S.A. Blokhin

12 May 2000

**OA O GAZPROM**  
**CONSOLIDATED BALANCE SHEET**  
**as at 31 December 1999**  
(in millions of Roubles)

Note	ASSETS	As of the beginning of 1999	As of the end of 1999
	<b>I. NON-CURRENT ASSETS</b>		
	Intangible assets	1 736	3 927
	including:		
	start-up expenses	-	-
	patents, licenses, trademarks, other rights and assets similar to those listed above	298	304
18	goodwill on subsidiaries	-	1 676
	Fixed assets	634 237	629 426
	including:		
	plots of land and natural resources	15	12
4	buildings, constructions, machinery and equipment	621 722	617 104
5	Construction in progress	87 213	130 052
6	Long-term financial investments	49 855	78 353
	including:		
	investments in subsidiaries	19 387	25 388
	investments in associates	6 798	8 229
	investments in other companies	2 182	3 246
	loans issued to companies beyond 12 months	10 313	17 180
	other long-term investments	11 175	24 310
	Other non-current assets	1 599	771
	<b>TOTAL Section I</b>	<b>774 640</b>	<b>842 529</b>
	<b>II. CURRENT ASSETS</b>		
	Inventories	31 252	43 705
	including:		
	materials and other inventories	16 018	21 727
	livestock	88	91
	low-value and short-term assets	1 067	1 528
	work in progress	1 159	982
	finished goods and goods for resale	12 564	18 894
	goods dispatched	137	6
	expenses related to future periods	216	473
	other inventories and expenses	3	4
	Value added tax on purchased goods	29 860	23 889
7	Accounts receivable (payment expected beyond 12 months of the reporting date)	16 019	21 024
	including:		
	buyers and customers	15 636	20 167
	promissory notes, bills of exchange receivable	-	335
	advances paid	-	-
	other debtors	383	522

**OA0 GAZPROM**  
**CONSOLIDATED BALANCE SHEET**  
**as at 31 December 1999**  
(in millions of Roubles)

Note	ASSETS	As of the beginning of 1999	As of the end of 1999
	<b>II. CURRENT ASSETS (CONTINUED)</b>		
	Accounts receivable (payment expected within 12 months of the reporting date)	227 018	283 808
	including:		
	buyers and customers	174 316	204 900
	promissory notes, bills of exchange receivable	5 856	6 443
	receivable from participants (founders) on contributions to charter capital	-	-
	advances paid	6 617	9 731
	other debtors	40 229	62 734
	Short-term financial investments	17 479	29 146
	including:		
	investments in associated companies	1	-
	treasury shares	1 265	2 312
8	other short-term investments	16 213	26 834
9	Monetary assets	25 223	33 176
	including:		
	cash on hand	25	13
	Rouble bank accounts	928	2 335
	hard currency bank accounts	11 079	2 963
	other monetary assets	13 191	27 865
	Other current assets	80	225
	<b>TOTAL Section II</b>	<b>346 931</b>	<b>434 973</b>
10	<b>III. LOSSES</b>		
	Outstanding losses of previous years	17 467	38 720
	Loss of the reporting year	-	-
	<b>TOTAL Section III</b>	<b>17 467</b>	<b>38 720</b>
	<b>TOTAL ASSETS</b>	<b>1 139 038</b>	<b>1 316 222</b>

**OAo GAZPROM**  
**CONSOLIDATED BALANCE SHEET**  
**as at 31 December 1999**  
(in millions of Roubles)

Note	EQUITY AND LIABILITIES	As of the beginning of 1999	As of the end of 1999
10	<b>IV. EQUITY AND RESERVES</b>		
	Charter capital	118 368	118 368
	Additional capital	599 365	591 322
	Legal reserve	48	7
	including:		
	reserves and provisions, formed in accordance with legislation	36	-
	reserves formed in accordance with foundation documents	12	7
	Accumulation funds	-	-
	Social funds	11 842	11 009
	Special purpose financing	1 443	3 439
	Retained earnings of prior periods	-	-
	Retained earnings of the reporting period	-	46 623
	<b>TOTAL Section IV</b>	<b>731 066</b>	<b>770 768</b>
	<b>Minority interests</b>	<b>1 745</b>	<b>2 063</b>
	<b>V. NON-CURRENT LIABILITIES</b>		
12	Borrowings	181 310	222 337
	including:		
	bank loans due for repayment beyond 12 months of the reporting date	181 027	219 478
	other borrowings due for repayment beyond 12 months of the reporting date	283	2 859
	Other non-current liabilities	-	876
	<b>TOTAL Section V</b>	<b>181 310</b>	<b>223 213</b>

**ОАО ГАЗПРОМ**  
**CONSOLIDATED BALANCE SHEET**  
**as at 31 December 1999**  
(in millions of Roubles)

Note	EQUITY AND LIABILITIES	As of the beginning of 1999	As of the end of 1999
	<b>VI. CURRENT LIABILITIES</b>		
12	Borrowings	17 295	64 753
	including:		
	bank credits	16 750	62 156
	other loans	545	2 597
	Accounts payable	205 640	253 027
	including:		
	suppliers and contractors	30 038	37 975
	promissory notes, bills of exchange payable	7 786	20 690
	salaries payable	1 542	1 706
	social insurance and social security payable	7 054	6 178
	payable to budget (taxes)	52 149	80 922
	advances received	1 719	1 527
11	other creditors	105 352	104 029
	Dividends payable	109	127
	Income of future periods	424	333
	Consumption funds	-	-
	Reserves for future expenses and payments	1 449	1 938
	Other current liabilities	-	-
	<b>TOTAL Section VI</b>	<b>224 917</b>	<b>320 178</b>
	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 139 038</b>	<b>1 316 222</b>

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R. Vyakhirev  
Chairman of the Management Committee

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I. Bogatyriova  
Chief Accountant



**OAO GAZPROM**  
**CONSOLIDATED STATEMENT OF INCOME**  
**for 1999**  
(in millions of Roubles)

Note		<u>For the reporting year</u>	<u>For the prior reporting year</u>
13	Sales of goods, products, works and services (less value added tax, excise tax and other similar mandatory payments)	305 990	171 295
14	Cost of goods, products, works and services sold	(176 709)	(108 963)
	Commercial expenses	(330)	(797)
	Management expenses	-	-
	<b>Gross profit from sales</b>	<b>128 951</b>	<b>61 535</b>
	Interest income	2 404	805
	Interest expense	(888)	(374)
	Income from investments in other companies	810	210
15	Other operating income	459 497	226 284
15	Other operating expenses	(497 969)	(310 984)
	<b>Income (loss) from operations</b>	<b>92 805</b>	<b>(22 524)</b>
	Other non-operating income	16 268	10 701
16	Other non-operating expenses	(22 436)	(10 268)
	Profit (loss) of associated undertakings	32	(56)
	<b>Pre-tax profit (loss) of the reporting period</b>	<b>86 669</b>	<b>(22 147)</b>
11	Income tax	(20 194)	(7 972)
17	Use of profit	(19 568)	(12 414)
	<b>Profit (loss) of the reporting period before minority interest</b>	<b>46 907</b>	<b>(42 533)</b>
	Minority interest	(284)	39
	<b>Profit (loss) of the reporting period</b>	<b>46 623</b>	<b>(42 494)</b>

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R. Vyakhirev  
Chairman of the Management Committee

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I. Bogatyriova  
Chief Accountant

**ОАО ГАЗПРОМ**  
**NOTES TO THE CONSOLIDATED FINANCIAL REPORTS**  
(in millions of Roubles)

**1. Nature of operations**

Russian joint stock company Gazprom was established in accordance with Presidential Decree No. 1333 dated 5 November 1992. The Annual General Meeting of the shareholders, held on 26 June 1998, approved a recommendation from the Board of Directors on revising the name of the organization in order to comply with the Federal Law on joint stock companies. Consequently, the new name has become the open joint stock company Gazprom or OAO Gazprom.

OAO Gazprom and its principal subsidiary and associated undertakings (collectively, the “Group”) operate one of the largest gas pipeline systems in the world and are responsible for substantially all gas production and high pressure gas transportation within the Russian Federation. The Group is also a major exporter of gas to European countries.

The Group operates as a vertically integrated business. Substantially all external sales represent gas sales in the Russian Federation and abroad. The principal elements of the Group’s vertically integrated business are the following:

- production of gas and other hydrocarbons;
- processing of gas and other hydrocarbons;
- transportation of gas; and
- domestic and export distribution of gas.

On average, the Group employed 298 000 people in 1999.

**2. Significant accounting policies and basis of preparation**

*Accounting principles*

The Statutory Accounting Reports of the Group have been prepared in accordance with the Regulation on Accounting and Reporting (“RAR”) adopted by Decree No. 34Н of the Ministry of Finance of the Russian Federation dated 29 July 1998 and the Regulation on Accounting “Accounting of an enterprise” (PBU 4/96), approved by Order No. 10 of the Ministry of Finance of the Russian Federation dated 8 February 1996.

*Basis of consolidation*

The Consolidated Balance Sheet and Consolidated Statement of Income and the Notes to the Consolidated Financial Reports (together, the “Consolidated Financial Reports”) comprise a consolidation of the Statutory Accounting Reports of OAO Gazprom and each of the Group’s principal subsidiary and associated undertakings prepared in accordance with the methodology recommendations on preparing consolidated financial reports, approved by Order No. 112 of the Ministry of Finance of the Russian Federation dated 30 December 1996 (“Order 112”).

Order 112 prescribes the procedure for the preparation of the Consolidated Financial Reports by organisations, which have subsidiary and associated undertakings. The procedure, inter-alia, prescribes the elimination of all transactions between group undertakings and the inclusion of the assets, liabilities and financial results of investments in wholly or partly owned undertakings.

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All significant investments in wholly and partly-owned undertakings in the core gas production and transportation business, and those engaged in administration, sales, procurement and other functions have been included in the Consolidated Financial Reports in compliance with the consolidation methodology. Included on an equity basis are the results and net assets of three associated undertakings, which are gas distribution businesses in Germany, Finland and Poland.

As permitted under Order 112, the results of the Group's banking subsidiaries, Gazprombank and National Reserve Bank, have been accounted for on the basis prescribed for inclusion in the Consolidated Financial Reports of investments in associated undertakings. Results and net assets of those banks were included in the Consolidated Financial Reports on the basis of their financial statements, as prepared in accordance with RAR.

In accordance with RAR, the results of the banking subsidiaries include the gains and losses incurred on forward contracts only to the extent that they have been closed or settled prior to the balance sheet date. A significant number of forward contracts concluded by the above banks remained open or unsettled as at 31 December 1999.

Insignificant investments, which it would be appropriate to include on a consolidated basis or on an equity basis, have been accounted for at historical cost, except for those denominated in hard currency which were subject to statutory revaluation prior to 1 January 1995. These insignificant investments were not consolidated for the practical reason that the resultant effect would have been immaterial to the accompanying Consolidated Financial Reports.

*Assets and liabilities denominated in foreign currency*

The official exchange rate of the Russian Rouble ("RR") effective at the date of such transactions, was used to account for transactions made in foreign currency. Monetary assets and liabilities denominated in foreign currencies are recorded at amounts calculated with the official exchange rate of the RR effective at 31 December 1999.

Exchange differences resulting from transactions with assets and liabilities during the year, and from their recalculation as at the reporting date, are included in the Consolidated Statement of Income.

*Goodwill*

Goodwill arising on the acquisition of subsidiary undertakings is recorded in the Consolidated Financial Reports and represents the difference between the actual cost of acquired investments and the nominal value of the subsidiaries, net of accumulated depreciation. Goodwill on subsidiary undertakings is depreciated over 10 years starting from the year following the year of purchase of the investment.

*Fixed assets*

Fixed assets are reported at historical cost less depreciation accumulated for the period of their maintenance by the Group.

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Fixed assets are depreciated for accounting purposes on a straight line basis at standard rates of depreciation established by the Government (Resolution No. 1072 of the Council of Ministers of the USSR dated 22 October 1990) based upon the estimated useful lives of the assets as follows:

	<u>Years</u>
Pipelines	33
Wells and gas producing equipment	12 - 40
Machinery and equipment	10 - 18
Buildings and roads	8 - 50
Social assets	5 - 50

Interest incurred on borrowings to finance the purchase (construction) of fixed assets before those assets were put into operation has been capitalised as part of historic cost.

*Investments in shares*

Investments in shares are recorded at the historic cost of purchase.

*Inventories*

Inventories are carried at the historic cost of purchase and written off using the weighted average cost method.

*Borrowings*

Beginning in 1999, interest on borrowings has been recorded on an accrual basis and included as part of the associated borrowing.

*Provision for doubtful accounts*

The Group's accounting policy does not call for provisions to be made against doubtful accounts.

*Revenue recognition*

Revenues are recognised on an accrual basis when sales are recognised, at the moment when goods were shipped, work completed or services rendered and settlement documents prepared.

**3. Changes to opening balance**

In accordance with current regulations, the basis of preparation and presentation of the amounts disclosed in the Consolidated Financial Reports in respect of the prior accounting period must be consistent with and comparable to those of the current period. In order to comply with this requirement, prior period comparative amounts are presented to reflect the results of the fixed asset revaluation conducted in accordance with Resolution No. 627 of the Government of the

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Russian Federation dated 24 June 1998, which was recorded in the balance sheet for 1999.

In addition, immaterial adjustments were made in the opening balance of the 1999 Consolidated Financial Reports related to changes in the accounting policy in respect of interest on borrowings.

	<b>Assets</b> <b>(section I+II)</b>	<b>Liabilities</b> <b>(section V+VI)</b>	<b>Equity</b> <b>and reserves</b> <b>(section IV-III)</b>
<b>1998 closing consolidated balance sheet</b>	<b>1 122 911</b>	<b>404 056</b>	<b>717 110</b>
Revaluation of fixed assets	(2 627)	-	(2 627)
Interest on borrowings	<u>1 287</u>	<u>2 171</u>	<u>(884)</u>
<b>1999 opening consolidated balance sheet</b>	<b>1 121 571</b>	<b>406 227</b>	<b>713 599</b>

**4. Fixed assets**

Buildings, constructions, machinery and equipment in the Consolidated Balance Sheet are comprised of the following:

	<b>As of the</b> <b>beginning of</b> <b>1999</b>	<b>As of the</b> <b>end of</b> <b>1999</b>
Buildings	50 447	50 286
Constructions	542 530	529 838
Machinery and equipment	<u>28 745</u>	<u>36 980</u>
<b>Total</b>	<b>621 722</b>	<b>617 104</b>

**5. Construction in progress**

Construction in progress is comprised of the following:

	<b>As of the</b> <b>beginning of</b> <b>1999</b>	<b>As of the</b> <b>end of</b> <b>1999</b>
Construction in progress	71 074	107 628
Equipment for installation	12 755	17 216
Advances paid	<u>3 384</u>	<u>5 208</u>
<b>Total</b>	<b>87 213</b>	<b>130 052</b>

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**6. Long-term financial investments**

*Investments in subsidiaries*

In 1999, the Group continued its long term restructuring plans. As a part of this restructuring, various non-core business activities such as agriculture, construction, science, industry and others were transferred into separate subsidiaries. Over time, it is management's intention, to the extent possible, to divest these companies.

The Group's management does not view the activities of these companies as core to the primary business functions and in the aggregate they are immaterial. Accordingly, amounts related to these companies have been included in investments in subsidiaries at historic cost.

Also included in investments in subsidiaries are the Group's banking subsidiaries.

*Loans issued to companies beyond 12 months*

Included in loans issued to companies beyond 12 months is an interest-bearing loan receivable from Wintershall Gas GmbH, Germany, of RR 13 460 and RR 9 025 at 31 December 1999 and 1998, respectively and a loan receivable from National Reserve Bank of RR 1 980 at 31 December 1999.

*Other long-term investments*

Included in other long-term investments, are investments in joint activities, deposits and securities.

Long-term deposits held at the banking subsidiaries amounted to RR 10 212 and RR 3 034 at 31 December 1999 and 1998, respectively.

**7. Accounts receivable**

Accounts receivable (payment expected beyond 12 months of the reporting date) of the Consolidated Balance Sheet includes amounts related to pipes supplied by OAO Gazprom to an associated undertaking, AO EuRoPol GAZ, (see Note 18) for construction of the Polish section of the Yamal-Europe pipeline in the amount of RR 14 658 and RR 11 789 as at 31 December 1999 and 1998, respectively.

**8. Short-term financial investments**

*Other short-term investments*

Included in other short-term investments are loans issued, deposits and securities.

Short-term deposits held at the Group's banking subsidiaries amounted to RR 891 and RR 2 645 at 31 December 1999 and 1998, respectively.

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**NOTES TO THE CONSOLIDATED FINANCIAL REPORTS**  
(in millions of Roubles)

**9. Cash flows**

	<u>For 1999</u>	<u>For 1998</u>
<b>Cash at the beginning of the reporting period</b>	<b>30 887</b>	<b>27 741</b>
Total cash received, including:	355 544	299 969
sales of goods (work, products, services)	236 460	210 648
sales of fixed and other assets	7 290	2 152
advances received from buyers (customers)	3 309	5 638
borrowings	85 173	57 596
proceeds from financial investments	14 192	6 734
exchange differences on purchased currency	1 381	7 247
other receipts	7 739	9 954
Total cash used, including:	354 299	304 020
payment for purchased goods (work, services)	79 801	40 948
wages, salaries and social payments	22 855	15 021
advances issued	4 314	4 915
purchase of financial investments	45 827	24 106
settlements to budget	88 332	50 195
payment of loans and interest on loans received	84 399	53 446
exchange differences on currency sold	8 895	97 169
other payments and transfers	19 876	18 220
<b>Cash at the end of the reporting period</b>	<b>32 132</b>	<b>23 690</b>

In accordance with the Instruction on the procedures to complete annual accounting reports approved by Order No. 97 of the Ministry of Finance of the Russian Federation dated 12 November 1996, hard currency cash balances and all hard currency receipts and payments reported in the above cash flows have been restated using the exchange rates of the Central Bank of the Russian Federation effective at the end of the respective years. Such restatements have had a significant effect on cash flow items that include movements in hard currency.

The Group maintained cash balances with its banking subsidiaries of RR 5 997 and RR 13 142 at 31 December 1999 and 1998, respectively.

**10. Equity and reserves**

The number of shares issued and fully paid did not change in 1999 and amounted to 23 674 million with a nominal value of RR 5 each.

Treasury shares have been recorded at their purchase cost. The number of treasury shares owned by the Group totals 2 545 million and 2 328 million as at 31 December 1999 and 1998, respectively.

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	<b>For 1999</b>	<b>For 1998</b>
<b>Balance at the beginning of the year (Section IV minus Section III of the Consolidated Balance Sheet)</b>	<b>713 599</b>	<b>757 423</b>
Retained earning (loss) of the reporting period	46 623	(42 494)
Net decrease in equity and reserves due to use of prior year profit	(30 501)	(15 553)
Net increase in equity and reserves due to restating the amount of interest on taxes and duties relating to prior reporting periods	5 868	19 893
Social assets transferred to State authorities	(1 176)	(2 122)
Dividends accrued	(710)	(660)
Differences resulting from the revaluation of foreign investments	949	4 948
Other movements	(2 604)	(4 325)
<b>Balance at the year end (Section IV minus Section III of the Consolidated Balance Sheet)</b>	<b>730 048</b>	<b>717 110</b>

In 1999 OAO Gazprom accrued interim dividends out of retained earning of previous years in the amount of RR 0.03 per one common share, which totalled RR 710; the Group also met certain other expenses, including interest on loans paid, financing of research and development, social expenses and charitable contributions. As a result of such expenses, as at 31 December 1999 the outstanding losses of previous years amounted to RR 38 720.

The Charter of OAO Gazprom envisages the creation of a reserve fund of an amount not less than 15% of the Charter capital which is formed by annual allocations in the amount of not less than 5% of net profit of OAO Gazprom until the mentioned amount is formed. The reserve fund is used solely for the purposes of covering OAO Gazprom's losses, repaying bonds and repurchasing OAO Gazprom's shares, if other sources are not available. Allocations to the reserve fund out of the net profit of OAO Gazprom for 1999 will be recorded in the next reporting period, upon approval of the financial reports of OAO Gazprom at the annual general meeting.

Outstanding losses of previous years include exchange losses of OAO Gazprom for the period from 1 August 1998 to 31 December 1998 in the amount of RR 42 932. These losses could be used to reduce the taxable base in respect of profit tax during the following 5 years. A part of this amount, RR 36 158, was excluded from taxable profit when calculating the 1999 profit tax.

## **11. Taxation**

In accordance with the Group's accounting policy, the income tax charge recorded for the years ended 31 December 1999 and 1998 have been calculated based on the profits associated with sales when recognised on a modified cash basis, i.e. upon receiving payment in a bank settlement



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account, cash on hand, the making of a mutual cancellation, barter transactions or upon completing a similar procedure. As this basis differs from that used for recognising revenue in the Consolidated Statement of Income, the stated income tax charges in the Consolidated Statement of Income are not directly related to the profit recognised. In compliance with current legislation, no provision is made for deferred income tax.

Value added tax ("VAT") and excise tax due from customers and ultimately payable to the budget are included within other creditors. On settlement of the underlying transactions, payment of the taxes is due and amounts are reclassified as payable to the Budget. The other creditors balance at 31 December 1999 includes deferred VAT and excise tax of RR 43 622 and RR 34 282, respectively. The other creditors balance at 31 December 1998 includes deferred VAT and excise tax of RR 49 542 and RR 37 101, respectively.

**12. Borrowings**

<u>Lender</u>	<u>Currency</u>	<u>Amount</u>	
		<b>As of the beginning of 1999</b>	<b>As of the end of 1999</b>
a French banking consortium	US Dollar	61 950	81 142
a German banking consortium	US Dollar	51 625	69 105
an Italian banking consortium	US Dollar	29 910	35 739
a German banking consortium	Deutsche Mark	9 946	20 317
Sberbank of the Russian Federation	Roubles	2 000	15 025
a German banking consortium	Deutsche Mark	12 233	13 781
a German banking consortium	Deutsche Mark	10 999	11 730
a German banking consortium	Deutsche Mark	9 877	8 425
a Cypriot banking consortium	US Dollar	-	7 254
a German banking consortium	Deutsche Mark	-	4 270
Alfa Bank	Roubles	-	3 242
Vneshekonombank	Roubles	1 353	1 892
a Swiss banking consortium	US Dollar	1 758	1 520
Inkombank	US Dollar	1 131	1 478
other borrowings	Various	<u>5 823</u>	<u>12 170</u>
<b>Total borrowings</b>		<b>198 605</b>	<b>287 090</b>
including:			
due within one year		17 295	64 753
due beyond one year		181 310	222 337

Substantially all borrowings are secured by contractual obligations to sell gas in Western Europe.

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A loan agreement for USD 3 billion dated 4 November 1997, between OAO Gazprom and a French banking consortium, lead by Credit Lyonnais and Dresdner Bank AG, stipulates certain minimal coverage ratios calculated on the basis of gas prices during the prior 12-month period. In 1999, the coverage ratios under export gas contracts concluded with Gaz de France and Gazum fell below the minimal acceptable level. The shortfall in the required ratios was caused by the decrease of gas prices in the first half of 1999 and the increase in the exchange rate of the USD to the EURO. OAO Gazprom submitted to the syndicate of creditors its proposal on providing a temporary waiver in respect of maintaining the coverage ratios. The above mentioned waiver was signed by OAO Gazprom and Credit Lyonnais, acting as an agent of the creditors, on 22 March 2000.

*Other loans*

In 1999, OAO Gazprom issued coupon documentary bearer bonds. The issue amounted to 3 million bonds, each with a nominal value of RR 1 000 and a due date of 15 April 2003. The total amount of the issue, excluding the discount related to future periods, is recorded in other loans due borrowings for repayment beyond 12 months of the reporting date.

**13. Sales of goods, products, works and services**

	<u>For 1999</u>	<u>For 1998</u>
Gas sales (net of VAT and excise tax) to customers in:		
Russia	61 933	50 395
Former Soviet Union (excluding Russia)	40 552	18 919
Europe	<u>155 099</u>	<u>73 270</u>
Net sales of gas	257 584	142 584
Sales of gas condensate and other oil products (net of sales taxes)	10 990	6 222
Sales of gas transportation services (net of VAT)	15 493	9 264
Other revenues (net of VAT)	<u>21 923</u>	<u>13 225</u>
<b>Net sales</b>	<b><u>305 990</u></b>	<b><u>171 295</u></b>

In 1999, net sales increased by 79% as compared with 1998, mainly as a result of the devaluation of the Russian Rouble against foreign currencies.

**14. Cost of goods, products, works and services sold**

	<u>For 1999</u>	<u>For 1998</u>
External transit cost	57 663	26 680
Depreciation	36 997	33 229
Payroll expenses and social expenditure	22 030	12 991
Taxation	18 465	10 501
Goods	9 026	6 273
Materials	9 818	5 872
Other	<u>22 710</u>	<u>13 417</u>
<b>Total</b>	<b><u>176 709</u></b>	<b><u>108 963</u></b>

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Other includes the cost of electric power, payment for transportation services, costs of repairs to fixed assets and other similar expenses.

**15. Other operating income and expenses**

In accordance with the instruction on completing annual reporting forms approved by Order No. 97 of the Ministry of Finance of the Russian Federation dated 12 November 1996, "On annual statutory accounting reports of organisations", the amount of other operating income and other operating expenses in the Consolidated Statement of Income includes income and expenses from foreign currency sales, exchange differences and movements of securities.

	For 1999		For 1998	
	Income	Expenses	Income	Expenses
Sale and conversion of foreign currency	197 663	198 442	81 642	81 467
Movements related to movements of securities, including promissory notes	199 749	199 343	53 783	53 932
Exchange differences	42 086	67 819	71 517	148 941
Other	<u>19 999</u>	<u>32 365</u>	<u>19 342</u>	<u>26 644</u>
<b>Total</b>	<b><u>459 497</u></b>	<b><u>497 969</u></b>	<b><u>226 284</u></b>	<b><u>310 984</u></b>

**16. Other non-operating expenses**

Other non-operating expenses include RR 5 795 of losses relating to recognising the results of an appraisal of property contributed to the charter capital of the Group subsidiaries reorganised in 1999 (see Note 18).

**17. Use of profit**

The use of profit includes various types of expenditures payable to the Budget and non-Budget funds out of retained earnings.

	For 1999	For 1998
<b>Payments to the Budget:</b>		
Taxes	90	941
Penalties	304	781
Interest	<u>15 946</u>	<u>7 084</u>
	<u>16 340</u>	<u>8 806</u>
<b>Penalties and fines to non-Budget funds:</b>		
Penalties	14	27
Interest	<u>3 214</u>	<u>3 581</u>
	<u>3 228</u>	<u>3 608</u>
<b>Total</b>	<b><u>19 568</u></b>	<b><u>12 414</u></b>

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**18. Principal consolidated subsidiary and associated undertakings**

*Subsidiary undertakings reorganised in the reporting period*

In 1999 in accordance with Decree No. 426 of the President of the Russian Federation dated 28 April 1997, and for the purpose of bringing the Group's subsidiary undertakings legal status into compliance with the Civil Code of the Russian Federation, OAO Gazprom undertook a reorganization of the following Group subsidiaries:

Astrakhangazprom	Gazexport	Samaratransgaz
Bashtransgaz	Dagestangazprom	Severgazprom
VNIlgaz	Kavkaztransgaz	Surgutgazprom
Volgogradtransgaz	Kubangazprom	Tattransgaz
Volgotransgaz	Lentransgaz	Tomsktransgaz
Gazkomplektimpex	Mostransgaz	TyumenNIIgiprogaz
Gaznadzor	Nadymgazprom	Tyumentransgaz
Gazobezопасnost	Novourengoysky GCC	Uraltransgaz
Gazsviaz	Noyabrskgazdobycha	Urengoygazprom
Gaztorgromstroy	Orenburggazprom	Yugtransgaz
Gazflot	Permtransgaz	Yamburggazdobycha

In the course of the reorganisation, the above-mentioned undertakings, carrying out their activity within OAO Gazprom, were reorganised into separate limited liability companies. These companies are wholly owned by OAO Gazprom and carry out their activity on the territory of the Russian Federation.

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*Other subsidiary undertakings*

	<u>% of share capital held</u>
Burgaz	100
Volgogradneftemash	51
Vostokgazprom	70
Gazavtomatika	51
Gazpromavia	100
Gazprombank	93
Gazprominvestholding	100
Gazprom Finance	100
Gazfund	100
Gazenergoservice	51
Gerosgaz	51
Zapsibgazprom	51
ZGG-Zarubezhgaz Erdgashandels GmbH (“ZGG”)	100
Informgaz	100
IRTs Gazprom	100
Lebedinsky GOK	57
Mezhregiongaz	100
Nadymstroygazdobytcha	100
National Reserve Bank	40
Servicegazprom	100
Liquified Gas	100
Spetsgazavtotrans	51
Ulianovskgazservice	100
Yamalgazinvest	100

All of these subsidiaries are incorporated in the Russian Federation, with the exception of Gazprom Finance and ZGG, which are incorporated in the Netherlands and Germany, respectively. Gazprom Finance was established in February 1999 for the purpose of obtaining financing for the Group outside Russia. ZGG acts as the holding company for the Group’s interests in a number of gas distribution and transportation companies operating in Central Europe.

In 1999, the Group purchased 57% of the charter capital of OAO Lebedinsky GOK. The difference between the cost of investment and the nominal value of the interest acquired is recorded as Goodwill on subsidiaries in the Consolidated Balance Sheet.

In April 1999, a reorganisation of the charter capital of National Reserve Bank was approved by the Central Bank of the Russian Federation and the Group’s interest in the bank’s equity capital was reduced to 40%. However, due to the fact that the Group continues to exercise control over National Reserve Bank’s activities, the bank is still considered as a subsidiary in 1999.

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*Principal associated undertakings*

	<u>Country of incorporation</u>	<u>% of share capital held</u>
Wintershall Gas GmbH	Germany	35
Gazum Oy	Finland	25
AO EuRoPol GAZ	Poland	49

**19. Post balance sheet events and contingencies**

*Guarantees issued*

As at 31 December 1999, the Group had issued guarantees to third parties for RR 27 030; such guarantees are recorded off-balance sheet. Management expects that OAO Gazprom will have to pay some part of its obligations under the guarantees issued.

*Long-term loan agreements*

In 2000, agreements were signed in connection with obtaining loans guaranteed by Italian and Japanese export credit agencies for the total amount of USD 1 760 million to finance construction of the Blue Stream pipeline. Loans were provided by a group of Italian banks for the amount of USD 1 133 million and by Japanese banks for the amount of USD 627 million. The loan agreements will become effective upon the Group complying with a number of technical requirements.

*Operating environment*

The operations and earnings of the Group are affected by the general political and economic instability in Russia, as well as by frequent developments in business and tax legislation. The nature and degree of the effect of these factors on the Group's activities is not predictable.

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R. Vyakhirev

Chairman of the Management Committee

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I. Bogatyriova

Chief Accountant