

OPEN JOINT STOCK COMPANY GAZPROM
AUDIT REPORT AND
1998 CONSOLIDATED FINANCIAL REPORTS

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

AUDIT REPORT

General audit license, No. 010520, issued by the Central Attesting and Licensing Audit Committee of the Ministry of Finance of the Russian Federation on 24 June 1997. The license is valid until 24 June 2002.

State registration certificate, МПН No. 008.890, issued by Moscow Registration Bureau on 28 February 1992.

Settlement account, No. 407 028 104 000 010 012 93, at the commercial bank ING BANK EURASIA, correspondence account, No. 301 018 105 000 000 002 22, БИК 044 52 52 22, ИИИ 770 505 11 02.

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

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AUDIT FIRM'S OPINION
on the 1998 Consolidated Financial Reports of open joint stock company Gazprom

To the shareholders of open joint stock company Gazprom:

1. We have audited the attached 1998 Consolidated Financial Reports of open joint stock company Gazprom and its principal enterprises, subsidiary undertakings and associated undertakings (collectively, "the Group") which comprise the Consolidated Balance Sheet as at 31 December 1998 and the Consolidated Statement of Income for the year ended 31 December 1998 (together, the "Consolidated Financial Reports"). These Consolidated Financial Reports were prepared by the management of the Group in accordance with the Federal Law on Accounting and Regulation on Accounting and Reporting adopted by the Decree of the Ministry of Finance of the Russian Federation dated 26 December 1994, No. 170, and the methodology instructions of the Ministry of Finance of the Russian Federation dated 30 December 1996, No. 112. Such Consolidated Financial Reports differ to a significant extent from those prepared in accordance with International Accounting Standards. The Notes to the Consolidated Financial Reports comprise details of the significant accounting policies and the basis of consolidation used in the preparation of the Consolidated Financial Reports, as well as information on material numbers in the Balance Sheet and the Statement of Income.
2. Preparation of the Consolidated Financial Reports is the responsibility of management of the Group. 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 of the President of the Russian Federation dated 22 December 1993, No. 2263, 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, at selected locations, 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 of the Group, 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 1998 and the results of its operations for the year ended 31 December 1998 in accordance with the Federal Law on Accounting and Regulation on Accounting and Reporting in the Russian Federation adopted by the Decree of the Ministry of Finance of the Russian Federation dated 26 December 1994, No. 170, and the methodology instructions of the Ministry of Finance of the Russian Federation dated 30 December 1996, No. 112.

Director

R.D. Paterson

Statutory Auditor

S.A. Blokhin

15 May 1999

OA0 GAZPROM
CONSOLIDATED BALANCE SHEET
as at 31 December 1998
(in millions of denominated Roubles)

Note		As of the beginning of 1998	As of the end of 1998
	ASSETS		
	I. NON-CURRENT ASSETS		
	Intangible assets	790	1, 736
	including: start-up expenses	-	-
	patents, licenses, trademarks, other rights and assets similar to those listed above	231	298
	Fixed assets	658, 766	636, 639
	including: plots of land and natural resources	63	15
4	buildings, constructions, machinery and equipment	646, 367	624, 011
5	Construction in progress	75, 698	86, 151
6	Long-term financial investments	22, 235	49, 855
	including: investments in subsidiaries	9, 935	19, 387
	investments in associated companies	2, 944	6, 798
	investments in other companies	1, 642	2, 182
	loans issued to companies beyond 12 months	3, 226	10, 313
	other long-term investments	4, 488	11, 175
	Other non-current assets	471	1, 599
	TOTAL Section I	757, 960	775, 980
	II. CURRENT ASSETS		
	Inventories	26, 145	31, 252
	including: materials and other inventories	14, 783	16, 018
	livestock	289	88
	low-value and short-term assets	1, 094	1, 067
	work in progress	904	1, 159
	finished goods and goods for resale	8, 576	12, 564
	goods dispatched	153	137
	expenses related to future periods	345	216
	other inventories and expenses	1	3
	Value added tax on purchased goods	21, 080	29, 860
	Accounts receivable (payment expected beyond 12 months of the reporting date)	2, 492	16, 019
	including: buyers and customers	2, 147	15, 636
	promissory notes, bills of exchange receivable	-	-
	receivable from subsidiaries and associated companies	-	-
	advances paid	238	-
	other debtors	107	383

OAo GAZPROM
CONSOLIDATED BALANCE SHEET
as at 31 December 1998
(in millions of denominated Roubles)

Note		As of the beginning of 1998	As of the end of 1998
	ASSETS		
	II. CURRENT ASSETS (CONTINUED)		
	Accounts receivable (payment expected within 12 months of the reporting date)	141, 528	227, 018
	including: buyers and customers	104, 700	174, 316
	promissory notes, bills of exchange receivable	5, 620	5, 856
	receivable from subsidiaries and associated companies	-	-
	receivable from participants (founders) on contributions to charter capital	-	-
	advances paid	2, 782	6, 617
	other debtors	28, 426	40, 229
	Short-term financial investments	4, 460	17, 479
	including: investments in associated companies	87	1
	treasury shares	1, 601	1, 265
7	other short-term investments	2, 772	16, 213
8	Monetary assets	8, 983	25, 223
	including: cash on hand	18	25
	Rouble bank accounts	887	928
	hard currency bank accounts	4, 254	11, 079
	other monetary assets	3, 824	13, 191
	Other current assets	57	80
	TOTAL Section II	204, 745	346, 931
	III. LOSSES		
	Outstanding losses of previous years	-	-
	Loss of the reporting year	-	42, 494
	TOTAL Section III	-	42, 494
	TOTAL ASSETS	962, 705	1, 165, 405

OA0 GAZPROM
CONSOLIDATED BALANCE SHEET
as at 31 December 1998
(in millions of denominated Roubles)

Note		As of the beginning of 1998	As of the end of 1998
	EQUITY AND LIABILITIES		
9	IV. EQUITY AND RESERVES		
	Charter capital	237	118,368
	Additional capital	720,382	601,992
	Legal reserve	59	48
	including: reserves and provisions, formed in accordance with legislation	36	36
	reserves formed in accordance with foundation documents	23	12
	Accumulation funds	-	-
	Social funds	12,373	11,842
	Special purpose financing	1,524	1,443
	Retained earnings of prior periods	22,848	25,911
	Retained earnings of the reporting period	-	-
	TOTAL Section IV	757,423	759,604
	Minority interests	2,193	1,745
	V. NON-CURRENT LIABILITIES		
11	Borrowings	45,334	181,310
	including: bank loans due for repayment beyond 12 months of the reporting date	45,063	181,027
	other borrowings due for repayment beyond 12 months of the reporting date	271	283
	Other non-current liabilities	-	-
	TOTAL Section V	45,334	181,310

OA0 GAZPROM
CONSOLIDATED BALANCE SHEET
as at 31 December 1998
(in millions of denominated Roubles)

Note	EQUITY AND LIABILITIES	As of the beginning of 1998	As of the end of 1998
	VI. CURRENT LIABILITIES		
11	Borrowings	5,205	15,124
	including: bank credits	4,553	14,579
	other loans	652	545
	Accounts payable	150,571	205,640
	including: suppliers and contractors	27,066	30,038
	promissory notes, bills of exchange payable	3,427	7,786
	payable to subsidiaries and associated		
	companies	-	-
	salaries payable	2,001	1,542
	social insurance and social security payable	5,997	7,054
	payable to budget (taxes)	45,394	52,149
	advances received	912	1,719
10	other creditors	65,774	105,352
	Dividends payable	246	109
	Income of future periods	455	424
	Consumption funds	-	-
	Reserves for future expenses and payments	1,278	1,449
	Other current liabilities	-	-
	TOTAL Section VI	157,755	222,746
	TOTAL EQUITY AND LIABILITIES	962,705	1,165,405

R.Vyakhirev
Chairman of the Management Committee

I.Bogatyriova
Chief Accountant

OAO GAZPROM
CONSOLIDATED STATEMENT OF INCOME
for 1998

(in millions of denominated Roubles)

Note	For the reporting period	For the prior reporting period
12		
Sales of goods, products, works and services (less value added tax, excise tax and other similar mandatory payments)	171, 295	138, 820
13		
Cost of goods, products, works and services sold	(108, 963)	(81, 313)
Commercial expenses	(797)	(1, 519)
Management expenses	-	-
Gross profit from sales	61, 535	55, 988
Interest income	805	627
Interest expense	(374)	(255)
Income from investments in other companies	210	310
14		
Other operating income	226, 284	92, 816
14		
Other operating expenses	(310, 984)	(97, 739)
(Loss) income from operations	(22, 524)	51, 747
Other non-operating income	10, 701	3, 745
Other non-operating expenses	(10, 268)	(2, 850)
Loss of associated undertakings	(56)	(161)
Pre-tax (loss) profit of the reporting period	(22, 147)	52, 481
10		
Income tax	(7, 972)	(13, 744)
15		
Use of profit	(12, 414)	(15, 949)
(Loss) profit of the reporting period before of minority interest	(42, 533)	22, 788
Minority interest in loss	39	42
(Loss) profit of the reporting period	(42, 494)	22, 830

R.Vyakhirev
Chairman of the Management Committee

I.Bogatyriova
Chief Accountant

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

1. Nature of operations

Russian joint stock company Gazprom was established in accordance with the Presidential Decree dated 5 November 1992, No. 1333. 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 enterprises, subsidiary undertakings 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 is directly involved in the following activities:

- exploration and drilling for hydrocarbons;
- production of gas;
- transportation of gas and condensates;
- underground storage of gas;
- domestic and export sale of gas.

In 1998, economic instability in the Russian Federation increased significantly. This had a material impact on the activity of OAO Gazprom and other companies in the industry and will continue to have such an impact in the near future.

2. Significant accounting policies and basis of preparation

Accounting principles

The Statutory Accounting Reports of the enterprises, subsidiary undertakings and associated undertakings of the Group have been prepared in accordance with the Regulation on Accounting and Reporting (“RAR”) adopted by the Order of the Ministry of Finance of the Russian Federation dated 26 December 1994, No. 170, and the Regulation on accounting, “Accounting of an enterprise” (PBU 4/96), approved by the Order of the Ministry of Finance of the Russian Federation dated 8 February 1996, No. 10.

Basis of consolidation

The Consolidated Balance Sheet and Consolidated Statement of Income of the Group (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 enterprises prepared in accordance with the methodological recommendations on preparing and submitting consolidated financial reports, approved by the Order of the Ministry of Finance of the Russian Federation dated 30 December 1996, No. 112 (“Order 112”).

These methodological recommendations prescribe the procedure for the preparation of the Consolidated Financial Reports by organizations which have subsidiary enterprises. The

OAO GAZPROM
NOTES TO THE CONSOLIDATED FINANCIAL REPORTS
(in millions of denominated Roubles)

procedure, inter-alia, prescribes the elimination of all transactions between group enterprises and the inclusion of assets, liabilities and financial results of investments in wholly or partly owned enterprises.

All significant investments in wholly and partly-owned enterprises 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 two associated undertakings, which are gas distribution businesses in Germany and Finland.

As permitted under Order 112, the results of OAO Gazprom's banking subsidiaries, Gazprombank and National Reserve Bank have been accounted for on the basis prescribed for inclusion in the Group accounts of investments in associated undertakings. Results and net assets of those enterprises were included in the Group accounts 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 open or unsettled contracts existed as at 31 December 1998.

Insignificant investments which it would be appropriate to include on a consolidated basis or on an equity basis have been accounted for on the basis of 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.

Revenue recognition

Revenue is recorded on an accrual basis at the time goods are shipped, works are performed and services are rendered.

Inventories

Inventories are carried at cost determined using weighted average cost methods.

3. Reclassifications

In accordance with current regulations, the bases 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, the prior period comparative amounts have been restated to reflect the results of the fixed assets revaluation as at 1 January 1997 which was recorded in the balance sheet for 1998.

OAO GAZPROM
NOTES TO THE CONSOLIDATED FINANCIAL REPORTS
(in millions of denominated Roubles)

The effects of the revaluation booked as at 1 January 1998 are summarized below:

	Total assets	Capital and reserves	Minority interest
Data at 31 December 1997 as reported in the 1997 Consolidated Financial Reports	647, 923	442, 457	2, 377
Revaluation of fixed assets and construction in progress	314, 782	314, 966	(184)
Data at 1 January 1998 as reported in the 1998 Consolidated Financial Reports	962, 705	757, 423	2, 193

In 1998 the Group management made a decision that it was appropriate to add an element of Social funds to Additional capital. On the basis of this decision, Social funds in the amount of RR 12,823 created from the Unified Stabilization Fund and other sources as a result of the company being transformed into a joint stock company, were added to the Additional capital balance. This transaction resulted in the revision of the corresponding opening balance in the balance sheet for 1998.

A number of insignificant prior period amounts were reclassified in order to make them comparable with the presentation form of the current period.

4. Fixed assets

The buildings, constructions, machinery and equipment balance is comprised of the following:

	As of the beginning of 1998	As of the end of 1998
Buildings	51, 024	51, 620
Constructions	565, 683	543, 592
Machinery and equipment	29, 660	28, 799
Total	646, 367	624, 011

5. Construction in progress

Construction in progress is comprised of the following:

	As of the beginning of 1998	As of the end of 1998
Construction in progress	61, 564	70, 012
Equipment for installation	12, 035	12, 755
Advances paid	2, 099	3, 384
Total	75, 698	86, 151

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

6. Long-term financial investments

Unconsolidated subsidiaries

During 1998, 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 or associates. Over time, it is management's intention, to the extent possible, to divest these entities.

As management does not view the activities of these entities as core to the primary business functions and in the aggregate they are immaterial, such entities have not been consolidated in the 1998 Consolidated Financial Reports.

Loans issued to companies beyond 12 months

Included in investments is an interest-bearing loan receivable from Wintershall Gas GmbH, Germany, of RR 9,025 and RR 2,457 at 31 December 1998 and 1997, respectively.

Other long-term investments

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

7. Short-term financial investments

Other short-term investments

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

OAO GAZPROM
NOTES TO THE CONSOLIDATED FINANCIAL REPORTS
(in millions of denominated Roubles)

8. Cash flows

	<u>For the reporting period</u>	<u>For the prior reporting period</u>
Cash at the beginning of the reporting period	<u>27,741</u>	<u>4,656</u>
Total cash received, including:	<u>299,969</u>	<u>146,721</u>
sales of goods (work, services)	210,648	74,211
sales of fixed and other assets	2,152	8,523
advances received from buyers (customers)	5,638	1,936
borrowings	57,596	54,881
repayment of financial investments	6,734	606
exchange differences on purchased currency	7,247	257
other receipts	9,954	6,307
Total cash used, including:	<u>304,020</u>	<u>142,658</u>
payment for purchased goods (work, services)	40,948	43,356
wages, salaries and social payments	15,021	12,491
advances issued	4,915	1,482
investments	24,106	8,622
settlements to budget	50,195	45,766
payment of loans and interest on loans received	53,446	24,821
exchange differences on currency sold	97,169	1,639
other payments and transfers	18,220	4,481
Cash at the end of the reporting period	<u>23,690</u>	<u>8,719</u>

In accordance with the Order of the Ministry of Finance of the Russian Federation dated 12 November 1996, No. 97, the hard currency cash balance and all hard currency receipts and payments reported in the above cash flows have been restated on the basis of the exchange rates of the Russian Central Bank effective at the end of the respective years. In 1998 such restatements have had a significant effect on the cash flow statement items that included movements in hard currency.

9. Equity and reserves

The Annual General Meeting of shareholders, held on 26 June 1998, approved the increase of the nominal value of shares from RR 0.01 to RR 5. As a result of the above decision the charter capital increased from RR 237 to RR 118,368. The number of shares issued and fully paid did not change and amounted to 23.7 billion. The Prospectus of the Second Issue of OAO Gazprom stock was officially registered on 30 December 1998. In accordance with the Accounting regulation "On post balance sheet events" (PBU 7/98), the change in the charter capital was recognized in the consolidated accounting reports for 1998 based on the registration of the changes to the charter of OAO Gazprom effective from 30 March 1999. The increase took place as a result of the transfer of RR 118,131 of the additional capital to the charter capital.

Treasury shares have been recorded at their purchase cost. The number of shares owned by the Group totals 2,328 million and 2,567 million as at 31 December 1998 and 1997, respectively.

OAO GAZPROM
NOTES TO THE CONSOLIDATED FINANCIAL REPORTS
(in millions of denominated Roubles)

Balance at 1 January 1998 (total for Section IV of the 1998 Consolidated Balance Sheet)	757, 423
Net decrease of equity and reserves due to use of prior year profit	(15, 553)
Net increase of equity and reserves due to restating the amount of interest on taxes and duties relating to prior reporting periods	19, 893
Social assets transferred to the State authorities	(2, 122)
Dividends accrued	(660)
Revaluation of fixed assets under the Russian Federation Governmental Resolution dated 24 June 1998, No. 627.	(1, 665)
Differences resulted from revaluation of foreign investments	4, 948
Other	(2, 660)
Balance at 31 December 1998 (total for Section IV of 1998 Consolidated Balance Sheet)	759, 604

On 9 June 1998 the Government of the Russian Federation adopted Resolution No. 576, in accordance with which the amount of outstanding interest on taxes and duties as of 1 April 1998 was reduced by 80%. The decrease of the outstanding interest on tax payments relating to the period before 1 January 1998 amounted to RR 19,893.

10. Taxation

In accordance with the accounting policy of the Group, the income tax charges recorded for the years ended 31 December 1998 and 1997 have been calculated based on the profit associated with sales when recognized on a modified cash basis, i.e. upon receiving payment in a bank settlement 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 recognizing revenue in the Consolidated Statement of Income, the stated income tax charges are not directly related to the profit recognized. In compliance with Order of the Ministry of Finance of the Russian Federation of 19 October 1995, No. 115, "On the 1995 Annual Financial Reports", no provision is made for deferred profit taxation.

Value added tax ("VAT") and excise tax due from customers and ultimately payable to the budget are included in the Consolidated Balance Sheet within other creditors. On settlement of the underlying transactions, payment of the taxes is due and amounts are therefore reclassified as payable to the Budget. The other creditors balance at 31 December 1998 includes deferred VAT and excise tax of RR 49,542 and RR 37,101, respectively. The other creditors balance at 31 December 1997 included deferred VAT and excise tax of RR 33,760 and RR 22,062, respectively.

OAO GAZPROM
NOTES TO THE CONSOLIDATED FINANCIAL REPORTS
(in millions of denominated Roubles)

11. Borrowings

Borrowings from banks and other lenders are comprised of the following credit facilities outstanding at 31 December 1998 and 31 December 1997:

<u>Lender</u>	<u>Currency</u>	<u>Amount</u>	
		<u>At the year beginning</u>	<u>At the year end</u>
a French banking consortium	US Dollar	11,920	61,950
a German banking consortium	US Dollar	14,900	51,625
an Italian banking consortium	US Dollar	8,543	29,910
a German banking consortium	Deutsche Mark	3,401	12,223
a German banking consortium	Deutsche Mark	2,967	10,999
a German banking consortium	Deutsche Mark	1,041	9,946
a German banking consortium	Deutsche Mark	3,360	9,877
a Swiss banking consortium	US Dollar	-	1,758
Hungarian banks	US Dollar	-	1,033
an American bank	US Dollar	147	169
a Cypriot banking consortium	US Dollar	1,192	-
Japanese companies	US Dollar	580	-
a Swiss banking consortium	US Dollar	291	-
other borrowings	Various	<u>2,197</u>	<u>6,944</u>
Total borrowings		50,539	196,434
including:			
due within one year		5,205	15,124
due beyond one year		45,334	181,310

The increase of liabilities on loans resulted mainly from devaluation of the Russian Rouble against foreign currencies.

The Loan Agreement for USD 2.5 b dated 28 February 1997 (Dresdner Bank Luxembourg S.A. acting as an agent) with OAO Gazprom as one of the parties, stipulates certain minimal ratios calculated on the basis of gas prices for the prior 12-months period, in accordance with export contracts securing the loan. Due to decrease of gas prices and sales, the stipulated ratios were not met in 1998 and are likely not to be met in future. Because of that, OAO Gazprom submitted to the creditors its proposals on improving the security and on reducing the minimal acceptable level of ratios which are currently considered by the creditors.

OAO GAZPROM
NOTES TO THE CONSOLIDATED FINANCIAL REPORTS
(in millions of denominated Roubles)

12. Sales of goods, products, works and services

	<u>For the reporting period</u>	<u>For the prior reporting period</u>
Gas sales (excluding VAT and excise tax) to customers in:		
Russia	50,395	51,112
Former Soviet Union (excluding Russia)	18,919	19,181
Europe	<u>73,270</u>	<u>47,359</u>
Net sales of gas	142,584	117,652
Sales of gas condensate and other oil products (net of sales taxes)	6,222	6,721
Sales of gas transportation services (net of VAT)	9,264	1,605
Other revenues (net of VAT)	<u>13,225</u>	<u>12,842</u>
Net sales	171,295	138,820

The following factors impacted the amount of sales in 1998 as compared with 1997:

- the devaluation of the Russian Rouble against foreign currencies;
- a decrease in natural gas export supplies of 19,435 mcm (10%);
- a decrease in the average price of gas supplied to non-FSU countries of 18.8% due to the general decrease of prices for power supplies
- an increase in gas transportation services due to the greater access to OAO Gazprom's gas transportation system granted to independent suppliers.

13. Cost of sales of goods, products, works and services

	<u>For the reporting period</u>	<u>For the prior reporting period</u>
External transit cost	26,680	18,899
Depreciation	33,229	18,013
Payroll expenses and social expenditure	12,991	11,187
Taxation	10,501	9,017
Goods	6,273	6,120
Materials	5,872	5,181
Other	<u>13,417</u>	<u>12,896</u>
Total	108,963	81,313

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

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

14. Other income and expenses

In accordance with the Order of the Ministry of Finance of the Russian Federation dated 12 November 1996, No. 97, "On annual reporting of enterprises", and its additions and amendments, the amount of other operating income and other operating expenses in the Consolidated Statement of Income include RR 81,642 and RR 81,467 of income and expenses from foreign currency sales and purchases, respectively, in 1998. Similar amounts in 1997 totaled RR 64,798 and RR 64,954, respectively.

In addition, the amount of other operating income and other operating expenses in 1998 includes exchange differences of RR 71,517 and RR 148,941, respectively. Similar amounts in 1997 totaled RR 7,077 and RR 7,505, respectively.

15. Use of profit

Use of profit disclosed in the Consolidated Statement of Income includes various types of expenditures payable to Budget and non-Budget funds out of retained earnings.

	<u>For the reporting period</u>	<u>For the prior reporting period</u>
Payments to the Budget:		
taxes	941	629
penalties	781	527
interest	<u>7,084</u>	<u>11,492</u>
	<u>8,806</u>	<u>12,648</u>
Penalties and fines to non-Budget funds:		
penalties	27	92
interest	<u>3,581</u>	<u>3,209</u>
	<u>3,608</u>	<u>3,301</u>
Total	<u>12,414</u>	<u>15,949</u>

16. Change in accounting policy in 1999

In 1998 interest on loans received was accounted for on a cash basis. In accordance with a revised accounting policy approved for 1999 and with the changes to the legislation, interest on loans received will be accounted for on an accrual basis. Interest payable, which had not been accrued as of 31 December 1998, amounted to RR 2,274.

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(in millions of denominated Roubles)

17. Principal enterprises and subsidiary undertakings

Principal enterprises

OAo Gazprom consists of a number of separate enterprises, which individually are not joint stock companies but are recognized as legal entities.

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

All of the above enterprises are wholly owned and operate in the Russian Federation.

In accordance with the Decree of the President of the Russian Federation dated 28 April 1997, No. 426, and for the purpose of bringing the legal status of the mentioned subsidiaries into compliance with the Civil Code of the Russian Federation, in 1999 OAo Gazprom plans to carry out a structural reorganization of the principal enterprises of the Group. OAo Gazprom's management believes that this reorganization will not have a significant impact on the financial position and the results of the Group activity as of the reporting date.

OA O GAZPROM
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(in millions of denominated Roubles)

Subsidiary undertakings

	<u>% of share capital held</u>
Burgaz	100
Volgogradneftemash	51
Gazavtomatika	51
Gazpromavia	100
Gazprombank	89
Gazfund	100
Gazenergосervice	51
Zapsibgazprom	51
Zarubezhgaz Erdgashandels GmbH (“ZGG”)	100
Informgaz	100
IRTs Gazprom	100
Mezhregiongaz	100
Nadymstroygazdobytcha	100
National Reserve Bank	65
Servicegazprom	100
Liquified Gas	100
Spetsgazavtotrans	51

All of these subsidiaries are incorporated in the Russian Federation, with the exception of ZGG, which is incorporated in Germany. ZGG acts as the holding company for the Group’s interests in a number of gas distribution and transportation companies operating in Central Europe.

Principal associated undertakings

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