OAO GAZPROM
IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2002

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

To the Shareholders of OAO Gazprom

1. We have audited the accompanying consolidated balance sheet of OAO Gazprom and its subsidiaries (the "Group") as of 31 December 2002 and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2002, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

4. Without qualifying our opinion, we draw your attention to Note 30 to the consolidated financial statements. The Government of the Russian Federation is the principal shareholder of the Group and governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

Moscow, Russian Federation
20 June 2003

OAO GAZPROM
IFRS CONSOLIDATED BALANCE SHEET
(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

Notes		31 December 2002	31 December 2001
	Assets		
	Current assets		
6	Cash and cash equivalents	58,354	51,713
6	Restricted cash	45,593	46,220
7	Short-term investments	28,895	31,366
8	Accounts receivable and prepayments	192,042	257,771
9	Inventories	88,561	85,465
	Other current assets	16,490	22,925
		429,935	495,460
	Long-term assets		
10	Property, plant and equipment	1,855,276	1,783,004
5,11,30	Investments in associated undertakings	84,875	90,085
12	Other long-term investments	38,152	37,422
18	Deferred tax assets	-	15,881
13	Other long-term assets	72,461	48,921
		2,050,764	1,975,313
5	Total assets	2,480,699	2,470,773
	Liabilities and equity		
	Current liabilities		
14	Accounts payable and accrued charges	95,840	123,557
15	Taxes payable	47,728	63,370
16	Short-term borrowings and current portion of long-term borrowings	184,823	193,090
4	Short-term promissory notes payable	41,384	70,402
		369,775	450,419
	Long-term liabilities		
17	Long-term borrowings	248,603	237,413
4	Long-term promissory notes payable	20,218	14,259
15	Restructured tax liabilities	10,592	21,957
20	Provisions for liabilities and charges	21,989	20,047
18	Deferred tax liabilities	63,019	-
	Other long-term liabilities	24,454	5,578
		388,875	299,254
5	Total liabilities	758,650	749,673
29	Minority interest	10,177	17,387
	Shareholders' equity		
21	Share capital	325,194	325,194
21	Treasury shares	(30,367)	(20,872)
21	Retained earnings and other reserves	1,417,045	1,399,391
	Total shareholders' equity	1,711,872	1,703,713
	Total liabilities and equity	2,480,699	2,470,773

A.B. Miller
Chairman of the Management Committee
20 June 2003

E.A. Vasilieva
Chief Accountant
20 June 2003

The accompanying notes are an integral part of these financial statements.

OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF INCOME
(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

Notes		Year ended 31 December 2002	2001
5, 22	Sales	644,687	712,967
5, 23	Operating expenses	(496,713)	(506,843)
5	**Operating profit**	**147,974**	**206,124**
	Exchange gains	23,553	27,967
	Exchange losses	(32,988)	(33,373)
	Interest income	10,636	14,184
16, 17	Interest expense	(29,265)	(42,902)
3	Monetary gain	31,380	33,513
15, 24	Gains on and extinguishment of restructured liabilities	13,908	23,122
	Net monetary effects and financing items	17,224	22,511
11	Share of net income of associated undertakings	4,285	4,087
19	Losses on available-for-sale investments	(3,729)	(993)
	Profit before profit tax and minority interest	**165,754**	**231,729**
18	Current profit tax expense	(54,187)	(94,957)
18	Deferred profit tax expense	(81,945)	(118,234)
18	Profit tax expense	(136,132)	(213,191)
	Profit before minority interest	**29,622**	**18,538**
29	Minority interest	(667)	(5,339)
	Net profit	**28,955**	**13,199**
26	**Basic and diluted earnings per share (in Roubles)**	**1.39**	**0.63**

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(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

Notes		Year ended 31 December 2002	2001
	Operating activities		
27	**Net cash provided by operating activities**	**160,111**	**161,289**
	Investing activities		
	Capital expenditures	(141,124)	(108,453)
	Net change in loans made	(5,470)	933
	Interest received	10,002	12,428
10	Interest paid and capitalised	(12,998)	(16,711)
	Cash in subsidiaries (disposed of) acquired	(4,058)	1,198
	Acquisition of subsidiaries	(6,159)	(862)
	Change in other long-term investments and investments in associated undertakings	(881)	(6,136)
	Net cash used for investing activities	**(160,688)**	**(117,603)**
	Financing activities		
17	Proceeds from long-term borrowings (including current portion)	158,115	101,574
17	Repayment of long-term borrowings (including current portion)	(123,544)	(49,126)
	Sale of promissory notes	17,162	54,410
	Redemption of promissory notes	(17,615)	(78,254)
17	Net proceeds from issuance (redemption) of bonds	4,735	(119)
16	Net proceeds from (repayment of) short-term borrowings	2,950	(801)
21	Dividends paid	(10,328)	(6,736)
	Interest paid	(22,379)	(27,389)
21	Purchases of treasury shares	(45,490)	(54,342)
21	Sales of treasury shares, net of profit tax	38,784	49,829
6	Change in cash restricted for borrowings	627	4,133
	Net cash provided by (used for) financing activities	**3,017**	**(6,821)**
	Effect of exchange rate changes on cash and cash equivalents	8,099	3,638
	Effect of inflation accounting on cash and cash equivalents	(3,898)	(2,744)
	Increase in cash and cash equivalents	**6,641**	**37,759**
	Cash and cash equivalents, at beginning of reporting period	51,713	13,954
	Cash and cash equivalents, at end of reporting period	**58,354**	**51,713**

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OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

Notes		Number of shares outstanding (billions)	Share capital	Treasury shares	Retained earnings and other reserves	Total shareholders' equity
	Balance as of 31 December 2000	21.0	325,194	(13,214)	1,396,647	1,708,627
	Net income	-	-	-	13,199	13,199
21	Net treasury share transactions	(0.0)	-	(7,658)	3,144	(4,514)
21	Translation differences	-	-	-	(1,532)	(1,532)
21	Return of social assets to governmental authorities	-	-	-	(5,360)	(5,360)
21	Dividends	-	-	-	(6,707)	(6,707)
	Balance as of 31 December 2001	21.0	325,194	(20,872)	1,399,391	1,703,713
	Balance as of 31 December 2001	21.0	325,194	(20,872)	1,399,391	1,703,713
	Net income	-	-	-	28,955	28,955
21	Net treasury share transactions	(1.2)	-	(9,495)	(1,425)	(10,920)
21	Translation differences	-	-	-	2,052	2,052
21	Return of social assets to governmental authorities	-	-	-	(2,133)	(2,133)
21	Dividends	-	-	-	(9,795)	(9,795)
	Balance as of 31 December 2002	19.8	325,194	(30,367)	1,417,045	1,711,872

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1 NATURE OF OPERATIONS

OAO Gazprom and its subsidiaries (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 in the Russian Federation. The Group is a major exporter of gas to European countries.

The Group is involved in the following principal activities:

- Production – exploration and production of gas and other hydrocarbons;
- Refining – processing of gas condensate and other hydrocarbons, and sales of other hydrocarbon products;
- Transportation – transportation of gas; and
- Distribution – domestic and export sale of gas.

The weighted average number of full time employees during 2002 and 2001 was 301 thousand and 304 thousand, respectively.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

Whilst there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the Government, together with legal, regulatory, and political developments.

3 BASIS OF PRESENTATION

These consolidated financial statements are prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS"), including International Accounting Standards and Interpretations issued by the International Accounting Standards Board.

The Group companies maintain their statutory financial statements in accordance with the Regulation on Accounting and Reporting of the Russian Federation ("RAR") or the accounting regulations of the country in which the particular Group company is resident. The Group's financial statements are based on the statutory records, with adjustments and reclassifications recorded in the financial statements for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements of the Group are prepared under the historical cost convention except as described in Note 4. The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

The adjustments and reclassifications made to the statutory accounts for the purpose of IFRS presentation include the restatement of balances and transactions for changes in the general purchasing power of the Russian Rouble ("RR") in accordance with IAS 29, "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. The restatement was calculated from the conversion factors derived from the Russian Federation Consumer Price Index, published by the Russian State Committee on Statistics ("Goscomstat"), and from indices obtained from other published sources for years prior to 1992.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

3 BASIS OF PRESENTATION (continued)

The indices used to restate the consolidated financial statements, based on 1988 prices (1988=100) for the five years to 31 December 2002, and the respective conversion factors used are:

Year	Index	Conversion Factor
1998	1,216,400	2.24
1999	1,661,481	1.64
2000	1,995,937	1.37
2001	2,371,572	1.15
2002	2,730,154	1.00

The significant guidelines followed in restating the consolidated financial statements are:

- all amounts are stated in terms of the measuring unit current as of 31 December 2002;
- monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current as of 31 December 2002;
- non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current as of 31 December 2002) and shareholders' equity, including the share capital, are restated by applying the relevant conversion factors;
- all items in the consolidated statements of income and of cash flows are restated by applying appropriate conversion factors;
- the effect of inflation on the Group's net monetary position is included in the consolidated statement of income as a net monetary gain or loss; and
- comparative amounts for 2001 are restated using the conversion factor 1.15 in order to state them in terms of the monetary unit current as of 31 December 2002.

The consolidated statement of income includes net monetary gains of RR 31,380 and RR 33,513 for the years ended 31 December 2002 and 2001, respectively, because on average the Group had net monetary liabilities in both years.

As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group will no longer apply the provisions of IAS 29.

Reclassifications

Certain reclassifications have been made to prior year balances to conform to the current year presentation.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Group are set out below.

4.1 Group accounting

Subsidiary undertakings

Subsidiary undertakings in which the Group, directly or indirectly, has an interest of more than 50% of the voting rights or is otherwise able to exercise control over the operations have been consolidated.

The consolidated financial statements of the Group reflect the results of operations of any subsidiaries acquired from the date control is established. Subsidiaries are no longer consolidated from the date from which control ceases. All intercompany transactions, balances and unrealized surpluses and deficits on transactions between group companies have been eliminated. Separate disclosure is made of minority interests. Acquisitions of subsidiaries are recorded in accordance with the purchase accounting method.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Minority interest at the balance sheet date represents the minority shareholders' portion of the pre-acquisition carrying amount of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented separately from liabilities and shareholders' equity.

Associated undertakings

Associated undertakings are undertakings over which the Group has significant influence, but which it does not control. Generally significant influence occurs when the Group has between 20% and 50% of the voting rights. Associated undertakings are accounted for using the equity method.

The equity method involves recognising in the statement of income the Group's share of the associated undertakings' profit or loss for the year, less dividends received. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group's interest in each associated undertaking is carried in the balance sheet at an amount that reflects cost, including the goodwill at acquisition, plus its share of profit and losses. Provisions are recorded for any impairment in value.

Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking.

4.2 Investments

The Group classified its investments into the following categories: trading, held-to-maturity and available-for-sale.

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with fixed maturity that the management of the Group companies has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets. There were no such investments as of 31 December 2002 and 2001. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in fair value, are classified as available-for-sale. These are included in non-current assets unless management has the expressed intention of holding the investments for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognized on the trade date, which is the date that the Group commits to purchase or sell the financial asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently re-measured to fair value. Available-for-sale investments principally comprise non-marketable equity securities, for which it is not possible to obtain current market quotes. For these investments, fair value is estimated based on the market price of similar financial assets or estimated future discounted cash flows. For other investments traded in active markets, fair value is determined by reference to the current market value at the close of business on the reporting date.

Realized gains and losses arising from sale and unrealized gains and losses arising from changes in the fair value of trading and available-for-sale investments are included in the statement of income in the period in which they arise.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in the fair value of trading and available-for-sale investments are recorded in the statement of income within operating expenses and gains and losses on available-for-sale investments, respectively.

In the statement of cash flow, purchases and sales of trading investments are classified as operating activities.

4.3 Goodwill

Any excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary or associated undertaking at the date of acquisition is recorded as goodwill. Goodwill on acquisition of subsidiary undertakings is included in other long-term assets. Goodwill on acquisition of associated undertakings is included in investments in associated undertakings. Goodwill is amortised using the straight-line method over the shorter of its estimated useful life or 20 years.

4.4 Joint ventures

Joint ventures are contractual agreements whereby two or more parties undertake economic activity, which is subject to joint control. Joint ventures are accounted for using the equity method.

4.5 Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term investments which are readily converted to cash and have an original maturity of three months or less. Restricted cash balances comprise balances of cash and cash equivalents which are restricted as to withdrawal under the terms of certain borrowings or under banking regulations. Restricted cash balances are excluded from cash in the consolidated statement of cash flows.

4.6 Accounts receivable

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. The provision for impairment of trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables or if collection is not anticipated for a long period of time. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of the receivable.

4.7 Inventories

Inventories are valued at the lower of net realisable value and cost. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

4.8 Property, plant and equipment

Property, plant and equipment are carried at historical cost of acquisition or construction after deduction of accumulated depreciation.

Gas and oil exploration and production activities are accounted for in accordance with the successful efforts method. Under the successful efforts method, costs of successful development and exploratory wells are capitalised. Costs of unsuccessful exploratory wells are expensed upon determination that the well does not justify commercial development. Other exploration costs are expensed as incurred.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Major renewals and improvements are capitalised. Maintenance, repairs and minor renewals are expensed as incurred. Minor renewals include all expenditures that do not result in a technical enhancement of the asset beyond its original capability. Gains and losses arising from the disposal of property, plant and equipment are included in the consolidated statement of income as incurred.

Interest costs on borrowings are capitalised as part of the cost of self constructed assets during the period of time that is required to construct and prepare the asset for its intended use. All other borrowing costs are expensed.

The return to a governmental authority of social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatisation is recorded only upon both the transfer of title to, and termination of operating responsibility for, the social assets. There is no specified timetable for such social assets to be transferred to the governmental authorities, and transfer does not occur until the agreement of both parties is reached. These disposals are considered to be shareholder transactions because they represent a return of assets for the benefit of governmental authorities, as contemplated in the original privatisation arrangements. Consequently, such disposals are accounted for as a charge to shareholders' equity.

Depreciation is calculated on a straight-line basis. Depreciation on wells and production equipment has been calculated on cost, using the straight line method rather than, as is the more generally accepted international industry practice, on the unit-of-production method as the difference is not material. Assets under construction are not depreciated.

The estimated useful lives of the Group's assets are as follows:

	Years
Pipelines	33
Wells and production equipment	12-40
Machinery and equipment	10-18
Buildings	30-40
Roads	20-40
Social assets	10-40

4.9 Impairment of assets

At each balance sheet date management assess whether there is any indication that the recoverable value of the Group's assets has declined below the carrying value. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the consolidated statement of income in the period in which the reduction is identified. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

4.10 Borrowings

Borrowings are recognised initially at the fair value of the proceeds received which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, borrowings are recognised at amortised cost, using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Deferred tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using a balance sheet liability method. Deferred tax assets and liabilities are recorded for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deferred tax asset will be realised or if it can be offset against existing deferred tax liabilities. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

4.12 Foreign currency transactions

Monetary assets and liabilities held by the Group as of 31 December 2002 and 2001 and denominated in foreign currencies are translated into Roubles at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised as exchange gains or losses in the consolidated statement of income.

The balance sheets of foreign subsidiaries and associated undertakings are translated into Roubles at the exchange rate prevailing at the reporting date. Statements of income of foreign entities are translated at average exchange rates for the year. Exchange differences arising on the translation of the net assets of foreign subsidiaries and associated undertakings are recognised as translation differences and included in shareholders' equity.

The official US dollar to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 31.78 and 30.14 as of 31 December 2002 and 2001, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 33.11 and 26.49 as of 31 December 2002 and 2001, respectively.

Exchange restrictions and currency controls exist relating to converting the RR into other currencies. The RR is not freely convertible in most countries outside of the Russian Federation.

4.13 Provisions for liabilities and charges

Provisions, including provisions for environmental liabilities and asset retirement obligations, are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. As obligations are determined, they are recognised immediately based on the present value of the expected future cash flows arising from the obligations.

4.14 Shareholders' equity

Treasury shares

Where the Group companies purchase the Group's equity share capital, the consideration paid including any attributable transaction costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are re-sold. Where such shares are subsequently sold, any consideration received is included in shareholders' equity. Treasury shares are recorded at weighted average cost. The gains (losses) arising from treasury share transactions are recognised as a movement in the consolidated statement of changes in shareholders' equity, net of associated costs including taxation.

Dividends

Dividends are recognised as a liability and deducted from shareholders' equity at the balance sheet date only if they are declared before or on the balance sheet date.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 Revenue recognition

Sales are recognised for financial reporting purposes when products are delivered to customers and title passes and are stated net of VAT, excise taxes and other similar compulsory payments. Gas transportation sales are recognised when transportation services have been provided, as evidenced by delivery of gas in accordance with the contract.

Natural gas prices and gas transportation tariffs in the Russian Federation are established by the Federal Energy Commission. Export gas prices for sales to European countries are indexed mainly to oil product prices as stipulated in long-term contracts. Export gas prices for sales to Former Soviet Union countries are generally based on one-year fixed price contracts.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

4.16 Mutual cancellation and other non-cash transactions

A significant portion of accounts receivable arising from sales are settled either through a chain of non-cash transactions (mutual cancellations), sometimes involving several enterprises, or other non-cash settlements. Non-cash settlements include promissory notes which are negotiable debt obligations. A portion of operations, including capital expenditures, is also transacted by mutual cancellations or other non-cash settlements.

Approximately, 18% of accounts receivable from gas sales settled during the years ended 31 December 2002 and 2001, respectively, were settled via mutual settlements or other non-cash settlements .

Promissory notes are issued by the Group entities as payment instruments. The promissory notes carry a fixed date of repayment and the supplier can sell them in the over-the-counter secondary market. Promissory notes issued by the Group are recorded initially at the fair value of the consideration received or the fair value of the note, which is determined using the prevailing market rate of interest for a similar instrument. In subsequent periods, promissory notes are stated at amortised cost using the effective yield method. Any difference between the fair value of the consideration (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the promissory note.

The Group’s short-term promissory notes payable had average interest rates ranging from 12.0% to 25.0% and from 12.0% to 28.0% for the years ended 31 December 2002 and 2001, respectively. The Group’s long-term promissory notes payable had average interest rates ranging from 15.0% to 26.0% and from 22.0% to 26.5% for the years ended 31 December 2002 and 2001, respectively.

The Group also accepts promissory notes from its customers (both issued by customers and third parties) as a settlement of receivables. Promissory notes issued by customers are recorded in the same manner as accounts receivable originated by the Group. Promissory notes issued by other third parties are recorded as available-for-sale investments.

4.17 Interest

Interest income and expense are recognised in the statement of income for all interest bearing instruments on an accrual basis using the effective yield method. Interest income includes nominal interest and accrued discount and premium. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets (within other long-term assets) to the extent that such expenditure is expected to generate future economic benefits. Other development expenditures are recognised as an expense as incurred. However, development costs previously recognised as an expense are not recognised as an asset in a subsequent period if the asset recognition criteria are subsequently met.

4.19 Pension and other post-retirement benefits

The Group operates a defined benefit plan. Pension costs are recognised using the projected unit credit method. The cost of providing pensions is charged to operating expenses within the consolidated statement of income so as to spread the regular cost over the service lives of employees. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the terms to maturity approximating the terms of the related liability. Actuarial gains and losses are recognised over the average remaining service lives of employees.

The Group owns and controls NPF Gazfund, which administers the Group's defined benefit plan. Members of Group's management are trustees of NPF Gazfund. The assets of NPF Gazfund primarily consist of shares of OAO Gazprom. The parent/subsidiary relationship between the Group and NPF Gazfund means that the assets held by NPF Gazfund do not meet the definition of plan assets and are, therefore, recognized in the consolidated balance sheet as treasury shares or other investments, as appropriate.

In the normal course of business the Group contributes to the Russian Federation State pension plan on behalf of its employees. Mandatory contributions to the State pension plan, which is a defined contribution plan, are expensed when incurred and are included within staff costs in operating expenses. The cost of providing other discretionary post-retirement obligations (including constructive obligations) is charged to the consolidated statement of income so as to spread the regular cost over the service lives of employees.

4.20 Financial instruments

The Group adopted IAS 39 "Financial Instruments: Recognition and Measurement" as of 1 January 2001. The financial effects of adopting IAS 39 are disclosed in Note 19.

Financial instruments carried on the balance sheet include cash and cash equivalent balances, investments, receivables, promissory notes, accounts payable and borrowings. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each item.

Accounting for derivative financial instruments

As part of trading activities, primarily by the banking subsidiaries, the Group is also party to derivative financial instruments including forward and options contracts in foreign exchange and precious metals. The Group's policy is to measure these instruments at fair value, with resultant gains or losses being reported within the consolidated statement of income. Derivatives are not accounted for as hedges.

Fair value disclosure

The fair value of accounts receivable for disclosure purposes is estimated by discounting the value of expected cash flows at the market rate of interest for similar borrowers at the reporting date.

The fair value of financial liabilities and other financial instruments (except if publicly quoted) for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The fair value of publicly quoted financial instruments for disclosure purposes are estimated based on current market value at the close of business on the reporting date.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

5 SEGMENT INFORMATION

Management does not separately identify segments within the Group as it operates as a vertically integrated business with substantially all external sales generated by the gas distribution business. However, following the practice suggested by IAS 14, "Segment Reporting", Revised 1997 ("IAS 14") for vertically integrated businesses, information can be analysed based on the following business segments:

- Production – exploration and production of gas and other hydrocarbons;
- Refining – processing of gas condensate and other hydrocarbons, and sales of other hydrocarbon products;
- Transportation – transportation of gas;
- Distribution – domestic and export sale of gas; and
- Other – other activities, including banking.

	Production	Refining	Transport	Distribution	Other	Total
31 December 2002						
Segment assets	623,155	52,472	1,212,772	160,955	234,970	2,284,324
Associated undertakings	-	2,846	28,978	15,362	37,689	84,875
Unallocated assets						249,117
Inter-segment eliminations						(137,617)
Total assets						2,480,699
Segment liabilities	18,728	16,072	34,137	141,621	44,936	255,494
Unallocated liabilities						640,773
Inter-segment eliminations						(137,617)
Total liabilities						758,650
Capital expenditures for the period	78,248	9,832	81,019	226	8,831	178,156
Depreciation	28,436	2,553	58,051	139	4,275	93,454
Charges for impairment and provisions	2,676	1,475	-	8,009	1,971	14,131
31 December 2001						
Segment assets	536,126	42,876	1,240,431	203,773	237,431	2,260,637
Associated undertakings	-	2,098	66,947	10,555	10,485	90,085
Unallocated assets						243,095
Inter-segment eliminations						(123,044)
Total assets						2,470,773
Segment liabilities	19,982	22,808	25,254	139,184	47,506	254,734
Unallocated liabilities						617,983
Inter-segment eliminations						(123,044)
Total liabilities						749,673
Capital expenditures for the period	70,898	6,169	77,295	111	17,568	172,041
Depreciation	30,023	2,693	62,533	152	4,467	99,868
Charges for impairment and provisions	4,930	4,733	10,771	18,660	804	39,898

Segment assets consist primarily of property, plant and equipment and current assets. Unallocated assets include other investments and deferred tax assets. Segment liabilities comprise operating liabilities, excluding items such as taxes payable, borrowings, and deferred tax liabilities.

Capital expenditures include acquisition of subsidiaries. Charges for impairment and provisions above include impairment provisions for accounts receivable, assets under construction, inventory and other long-term assets and provisions for liabilities and charges.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

5 SEGMENT INFORMATION (continued)

	Production	Refining	Transportation	Distribution	Other	Total
Year ended 31 December 2002						
Segment revenues						
Inter-segment sales	112,927	16,974	197,629	18,056	-	345,586
External sales	2,601	56,647	18,028	526,437	40,974	644,687
Total segment revenues	115,528	73,621	215,657	544,493	40,974	990,273
Segment expenses						
Inter-segment expenses	(1,626)	(15,330)	(20,754)	(307,876)	-	(345,586)
External expenses	(66,274)	(56,445)	(179,533)	(152,135)	(37,847)	(492,234)
Total segment expenses	(67,900)	(71,775)	(200,287)	(460,011)	(37,847)	(837,820)
Segment result	47,628	1,846	15,370	84,482	3,127	152,453
Unallocated operating expenses						(4,479)
Operating profit						147,974
Share of net (losses) income of associated undertakings	-	(1,529)	2,533	1,865	1,416	4,285
Year ended 31 December 2001						
Segment revenues						
Inter-segment sales	84,084	15,504	204,138	13,952	-	317,678
External sales	2,008	74,640	18,226	584,834	33,259	712,967
Total segment revenues	86,092	90,144	222,364	598,786	33,259	1,030,645
Segment expenses						
Inter-segment expenses	(2,257)	(13,732)	(18,705)	(282,984)	-	(317,678)
External expenses	(57,146)	(75,480)	(168,950)	(176,343)	(22,892)	(500,811)
Total segment expenses	(59,403)	(89,212)	(187,655)	(459,327)	(22,892)	(818,489)
Segment result	26,689	932	34,709	139,459	10,367	212,156
Unallocated operating expenses						(6,032)
Operating profit						206,124
Share of net income of associated undertakings	-	-	465	3,091	531	4,087

The inter-segment revenues mainly consist of:

- Production – sale of gas to the Distribution segment and sale of hydrocarbons to the Refining segment;
- Refining – sale of refined products to other segments;
- Transport – rendering transportation services to the Distribution segment; and
- Distribution – sale of gas to the Transport segment for operational needs.

Internal transfer prices are established by the management of the Group with the objective of providing for the specific medium and long-term funding requirements of the individual subsidiaries within each segment. Prices are determined on the basis of the statutory accounting reports of the individual subsidiaries on a cost plus basis.

Included within unallocated expenses are corporate expenses, including provision for the impairment of other investments and guarantees.

Substantially all of the Group's operating assets are located in the Russian Federation. Gas sales to different geographical regions are disclosed in Note 22.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

6 CASH AND CASH EQUIVALENTS

Balances included within cash and cash equivalents in the consolidated balance sheet represent cash on hand and balances with banks. Included within restricted cash are balances of cash and cash equivalents totalling RR 38,637 and RR 39,450 as of 31 December 2002 and 31 December 2001, respectively, which are restricted as to withdrawal under the terms of certain borrowings. In addition, restricted cash comprises cash balances of RR 6,956 and RR 6,770 as of 31 December 2002 and 31 December 2001, respectively, in subsidiary banks, which are restricted as to withdrawal under banking regulations.

7 SHORT-TERM INVESTMENTS

	31 December 2002	31 December 2001
Trading investments	14,143	15,182
Available-for-sale investments	14,752	16,184
	28,895	31,366

Trading investments primarily comprise marketable equity and debt securities held by the Group's banking subsidiaries with a view to generating short-term profits.

Available-for-sale investments primarily comprise promissory notes of third parties and maturing within twelve months of the balance sheet date or other debt and equity securities intended for sale within twelve months of the balance sheet date.

During the year ended 31 December 2002, RR 6,205 of short-term investments of OAO AKB National Reserve Bank were deconsolidated (see Note 28).

8 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2002	31 December 2001
Trade receivables (net of impairment provision of RR 94,541 and RR 109,341 as of 31 December 2002 and 2001, respectively)	113,990	153,997
Prepayments and advances (net of impairment provision of RR 7,206 and RR 12,682 as of 31 December 2002 and 2001, respectively)	34,026	42,183
Other receivables (net of impairment provision of RR 25,459 and RR 28,124 as of 31 December 2002 and 2001, respectively)	44,026	61,591
	192,042	257,771

The fair value of accounts receivable, excluding prepayments and advances, is RR 148,399 and RR 165,425 as of 31 December 2002 and 2001, respectively.

RR 62,173 and RR 81,846 of trade receivables, net of impairment provision, are denominated in foreign currencies, mainly US dollar and Euro, as of 31 December 2002 and 2001, respectively.

As of 31 December 2002 and 2001 other receivables include RR 24,843 and RR 40,786, respectively, relating to the operations of AB Gazprombank (ZAO) and OAO AKB National Reserve Bank (OAO AKB National Reserve Bank was included only at 31 December 2001 – see Note 28). These balances mainly represent deposits with other banks and loans issued to customers at commercial rates based on credit risks and maturities.

As of 31 December 2002 the average year-end interest rate on banking deposits and loans ranged from 9.2% to 21.4% on balances denominated in Russian Roubles and from 2.0% to 13.0% on balances denominated in foreign currencies. As of 31 December 2001 the average year-end interest rate on banking deposits and loans ranged from 12.6% to 21.2% on balances denominated in Russian Roubles and from 2.3% to 15.0% on balances denominated in foreign currencies.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

8 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

As of 31 December 2002 and 2001, AB Gazprombank (ZAO) had pledged deposits with banks and other financial institutions of RR 7,736 and RR 8,570, respectively. These are pledged as collateral for borrowings received by OAO Gazprom and credit exposures of Altalanos Ertekforgalmi Bank Rt ("AEB") (see Note 30).

The fair value of banking deposits and loans approximate the carrying values, as the majority are short-term in nature and at commercial rates.

As of 31 December 2002 other receivables included US dollar denominated loans of RR 7,303 issued by the Group's subsidiaries Gazprom Finance BV and AB Gazprombank (ZAO) to OOO Lotsman (see Note 33). The loans are due to be repaid in March 2003 and bear interest of 5% and 12.5% per annum, respectively. As of 31 December 2001 there were no loans outstanding to OOO Lotsman.

9 INVENTORIES

	31 December 2002	31 December 2001
Gas	45,826	37,812
Materials and supplies (net of an obsolescence provision of RR 11,792 and RR 15,303 as of 31 December 2002 and 2001, respectively)	35,724	37,086
Goods for resale (net of an obsolescence provision of RR 1,195 and RR 883 as of 31 December 2002 and 2001, respectively)	4,061	6,722
Refined products	2,950	3,845
	88,561	85,465

Inventories carried at net realisable value primarily relate to materials and supplies.

10 PROPERTY, PLANT AND EQUIPMENT

	Pipelines	Wells and production equipment	Machinery and equipment	Buildings and roads	Total operating assets	Social assets	Assets under construction	Total
As of 31.12.00								
Cost	1,192,556	387,802	506,171	614,642	2,701,171	134,384	281,996	3,117,551
Accumulated depreciation	(551,258)	(192,377)	(307,558)	(286,782)	(1,337,975)	(26,942)	-	(1,364,917)
Net book value at **31.12.00**	**641,298**	**195,425**	**198,613**	**327,860**	**1,363,196**	**107,442**	**281,996**	**1,752,634**
Depreciation	(35,884)	(12,163)	(28,339)	(22,422)	(98,808)	(3,766)	-	(102,574)
Additions	14,457	12	186	159	14,814	309	155,809	170 932
Acquisition of subsidiary	-	-	391	385	776	-	333	1,109
Transfers	69,325	39,597	52,534	83,818	245,274	1,235	(246,509)	-
Disposals	(52)	(340)	(5,123)	(9,735)	(15,250)	(7,372)	(9,972)	(32,594)
Impairment provision	-	-	-	-	-	-	(6,503)	(6,503)
Net book value at **31.12.01**	**689,144**	**222,531**	**218,262**	**380,065**	**1,510 002**	**97,848**	**175,154**	**1,783,004**
As of 31.12.01								
Cost	1,276,273	426,358	552,690	688,092	2,943,413	128,108	175,154	3,246,675
Accumulated depreciation	(587,129)	(203,827)	(334,428)	(308,027)	(1,433,411)	(30,260)	-	(1,463,671)
Net book value at **31.12.01**	**689,144**	**222,531**	**218,262**	**380,065**	**1,510,002**	**97,848**	**175,154**	**1,783,004**

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

10 PROPERTY, PLANT AND EQUIPMENT (continued)

	Pipelines	Wells and production equipment	Machinery and equipment	Buildings and roads	Total operating assets	Social assets	Assets under construction	Total
Net book value at **31.12.01**	**689,144**	**222,531**	**218,262**	**380,065**	**1,510,002**	**97,848**	**175,154**	**1,783,004**
Depreciation	(36,719)	(12,606)	(21,891)	(23,663)	(94,879)	(3,719)	-	(98,598)
Additions	-	107	233	1,203	1,543	6	165,812	167,361
Acquisition of subsidiary	613	1,743	2,025	3,172	7,553	100	3,142	10,795
Transfers	49,112	25,130	38,922	29,861	143,025	755	(143,780)	-
Disposals	(662)	(440)	(2,537)	(2,598)	(6,237)	(2,887)	(5,045)	(14,169)
Release of prior impairment provision	-	-	-	-	-	-	6,883	6,883
Net book value at **31.12.02**	**701,488**	**236,465**	**235,014**	**388,040**	**1,561,007**	**92,103**	**202,166**	**1,855,276**
As of 31.12.02								
Cost	1,325,336	453,275	592,524	721,457	3,092,592	124,654	202,166	3,419,412
Accumulated depreciation	(623,848)	(216,810)	(357,510)	(333,417)	(1,531,585)	(32,551)	-	(1,564,136)
Net book value at **31.12.02**	**701,488**	**236,465**	**235,014**	**388,040**	**1,561,007**	**92,103**	**202,166**	**1,855,276**

At each balance sheet date management assesses whether there is any indication that the recoverable value has declined below the carrying value of the property, plant and equipment. As a result of management's assessment of the recoverable amount, assets under construction are presented net of a provision for impairment of RR 95,570 and RR 102,453 at 31 December 2002 and 2001, respectively. The provision for impairment of assets under construction primarily relates to projects that have been indefinitely suspended.

Included in additions above is capitalized interest of RR 13,012 and RR 18,857 for the years ended 31 December 2002 and 2001, respectively. Capitalization rates of 7.2% and 7.3% were used representing the weighted average actual borrowing cost of the relevant borrowings for the years ended 31 December 2002 and 2001, respectively.

Included in the property, plant and equipment above are fully depreciated assets which are still in service with the gross cost of RR 637,970 and RR 589,436 as of 31 December 2002 and 2001, respectively. Included in additions are non-cash additions of RR 42,639 and RR 49,133 for the years ended 31 December 2002 and 2001, respectively.

Depreciation includes RR 746 and RR 657 for the years ended 31 December 2002 and 2001, respectively, which is considered a cost of self-constructed assets and thus capitalized rather than expensed in the consolidated statement of income. RR 19,979 and RR 14,751 of depreciation for the years ended 31 December 2002 and 2001, respectively, is capitalized as a component of gas inventories and will be expensed in the consolidated statement of income when the gas is sold.

Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatisation with a net book value of RR 40,526 and RR 44,487 as of 31 December 2002 and 2001, respectively.

The Group's gas fields are operated under licenses granted by federal and local authorities. These licenses to develop and extract hydrocarbons expire between 2012 and 2019, however they may be extended. Management expects to extend the existing licenses on properties expected to produce hydrocarbons subsequent to their current expiration dates. Because of the expected renewals, the assets are depreciated over their useful lives even if this is beyond the end of the current license.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

11 INVESTMENTS IN ASSOCIATED UNDERTAKINGS

Notes		31 December 2002	31 December 2001
30	EuRoPol GAZ S.A.	38,502	43,756
30	WINGAS GmbH	21,360	19,554
30	ZAO Armrosgazprom	3,276	3,878
31	Blue Stream Pipeline Company (BSPC)	1,983	2,419
	Other (net of provision for impairment of RR 8,789 and RR 8,526 as of 31 December 2002 and 2001, respectively)	19,754	20,478
		84,875	90,085

	31 December 2002	31 December 2001
Balance at the beginning of the reporting period	90,085	86,307
Share of income before tax	6,327	5,348
Share of profit tax expense	(2,042)	(1,261)
Share of net income	4,285	4,087
Reduction in loans and other receivables	(7,113)	(9,033)
Dividends received from associated undertakings	(1,189)	(824)
Translation differences	(190)	(793)
Net (disposals) acquisitions	(1,003)	10,342
Balance at the end of the reporting period	84,875	90,085

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

11 INVESTMENTS IN ASSOCIATED UNDERTAKINGS (continued)

Principal associated undertakings

Associated undertaking	Country	Nature of operations	% of share capital held 31 December 2002	2001
Agrochemical Corporation Azot	Russia	Sale of agricultural chemicals	46	46
Armrosgazprom	Armenia	Gas distribution and transportation	45	45
AEB	Hungary	Banking	26	26
BSPC	Netherlands	Construction and gas transportation	50	50
EuRoPol GAZ S.A.	Poland	Gas distribution and transportation	48	48
Debis Energy GmbH	Germany	Gas distribution	49	49
GASA – Zarubezhgas Import-Export GmbH	Germany	Gas distribution	30	30
Gas und Warenhandeslgesellschaft GmbH	Austria	Gas distribution	50	50
Gasym Oy	Finland	Gas distribution and transportation	25	25
KazRosGaz	Kazakhstan	Gas distribution and transportation	38	-
Latvias Gaze	Latvia	Gas distribution and transportation	25	25
Moldovagaz	Moldova	Gas distribution and transportation	50	50
Overgaz Inc.	Bulgaria	Gas distribution	50	50
Panrusgaz	Hungary	Gas distribution	31	31
Progress Gaz Trading	Yugoslavia	Gas distribution	25	25
Prometheus Gas	Greece	Gas distribution	50	50
Promgaz S.P.A.	Italy	Gas distribution	50	50
Sibur-Tyumen	Russia	Refining investments	42	42
Slovrusgaz	Slovakia	Gas distribution	50	50
Stella Vitae	Lithuania	Gas distribution and transportation	30	30
Turusgaz	Turkey	Gas distribution	45	45
WINGAS GmbH	Germany	Gas distribution and transportation	35	35

12 OTHER LONG-TERM INVESTMENTS

	31 December 2002	2001
South Pars (net of provision for impairment of RR 2,038 and RR 2,038 as of 31 December 2002 and 2001, respectively)	22,930	19,566
Joint ventures (net of provision for impairment of RR 5,383 and RR 4,954 as of 31 December 2002 and 2001, respectively)	2,354	2,088
Available-for-sale investments (net of provision for impairment of RR 23,796 and RR 13,971 as of 31 December 2002 and 2001, respectively)	12,868	15,768
	38,152	37,422

South Pars is a jointly controlled contractual arrangement with Total South Pars and Parsi International Ltd. established in 1997 to provide services to National Iranian Oil Company in relation to development of South Pars oil and gas field in Iran. Under the terms of agreement OAO Gazprom has a 30% interest in this arrangement.

During the year ended 31 December 2002, RR 9,335 of other long-term investments of OAO AKB National Reserve Bank were deconsolidated (see Note 28).

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

13 OTHER LONG-TERM ASSETS

	31 December 2002	31 December 2001
Long-term accounts receivable and prepayments (net of provision of RR 3,061 and RR 5,422 as of 31 December 2002 and 2001, respectively)	23,840	16,375
Advances for assets under construction (net of provision of RR 988 and RR 2,255 as of 31 December 2002 and 2001, respectively)	22,114	11,766
VAT related to assets under construction	10,480	5,963
Other long-term assets	16,027	14,817
	72,461	48,921

The fair value of long-term accounts receivable, excluding prepayments, is RR 19,353 and RR 9,218 as of 31 December 2002 and 2001, respectively.

14 ACCOUNTS PAYABLE AND ACCRUED CHARGES

	31 December 2002	31 December 2001
Trade payables	35,841	46,162
Accounts payable for acquisition of property, plant and equipment	24,217	34,888
Advances received	2,404	2,222
Accruals and deferred income	1,241	2,763
Other payables	32,137	37,522
	95,840	123,557

Other payables include RR 19,634 and RR 13,584 related to the operations of the Group's banking subsidiaries as of 31 December 2002 and 2001, respectively. These balances mainly represent amounts due to the banks' customers with terms at commercial rates, varying by maturity of deposit, ranging from 2.2% to 12.5% per annum as of 31 December 2002 and from 0.7% to 12.6% per annum as of 31 December 2001.

In the years ended 31 December 2002 and 2001 approximately 31% and 41% of the Group's settlements of accounts payable and accrued charges were settled via non-cash settlements.

RR 2,182 and RR 1,098 of trade payables are denominated in foreign currency, mainly the US dollar, at 31 December 2002 and 2001, respectively.

15 TAXES PAYABLE

	31 December 2002	31 December 2001
Excise tax	28,052	39,282
Tax penalties and interest	12,411	23,063
Road users tax	4,400	6,414
Net VAT	3,885	1,127
Profit tax	3,027	533
Royalty and mineral restoration taxes	336	7,160
Other taxes	6,209	7,748
	58,320	85,327
Less: long term portion of restructured tax liabilities	(10,592)	(21,957)
	47,728	63,370

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

15 TAXES PAYABLE (continued)

Substantially all accrued taxes above, except restructured tax liabilities (see below) incur interest at a rate of 1/300 of the refinancing rate of the Central Bank of the Russian Federation per day (21% and 25% per annum as of 31 December 2002 and 2001, respectively). Interest does not accrue on tax penalties and interest.

The long-term portion of restructured tax liabilities comprise various taxes, penalties and interest payable to the Russian Government which were previously past due and which have been restructured following the application of Government Resolution dated 3 September 1999 No.1002. During 2002 and 2001 the Group continued to negotiate the restructuring of its tax liabilities. The Group's current restructuring agreements presume payments of outstanding restructured taxes over a period of ten years, in accordance with agreed payment schedules. The restructuring resulted in the recognition of a gain recorded in the consolidated statement of income as part of net monetary effects and financing items in the amount of RR 1,349 and RR 21,526 for the years ended 31 December 2002 and 2001, respectively (see Note 24). The gain is based on the difference between the estimated fair value of the new restructuring agreement (based on discounted future cash flows) and the carrying amount of the old payables. Failure to pay the restructured taxes as they become due would result in reinstatement of the original liability.

The amortization of the discount on restructured taxes is recorded within interest expense and amounted to RR 4,650 and RR 3,513 for the years ended 31 December 2002 and 2001, respectively.

The long-term portion of restructured tax liabilities has the following maturity profile:

	31 December 2002	31 December 2001
Between one and two years	6,615	4,598
Between two and five years	14,675	6,977
After five years	702	45,767
	21,992	57,342
Less: unamortized discount on restructured taxes	(11,400)	(35,385)
	10,592	21,957

The total amortised cost of restructured tax liabilities were RR 13,071 and RR 24,943 as of 31 December 2002 and 2001, respectively.

Interest on restructured tax liabilities is accrued quarterly based on outstanding restructured tax liabilities, applying the refinancing rate of the Central Bank of the Russian Federation. RR 6,622 and RR 7,949 of the restructured tax liabilities as of 31 December 2002 and 2001, respectively, accrue interest at one-tenth of the official rate of the Central Bank of the Russian Federation as of the date of the Government Resolution (5% p.a.).

During the year ended 31 December 2002 some of the Group's subsidiaries became eligible to extinguish one half of restructured tax interest and penalties. The additional gain recorded upon extinguishment of restructured tax interest and penalties is recorded in the consolidated statement of income as a part of net monetary effects and financing items in the amount of RR 9,435 for the year ended 31 December 2002 (see Note 24). The amortisation of the respective discount is recorded within interest expense and amounted to RR 2,734 for the year ended 31 December 2002.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

16 SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS

	31 December 2002	31 December 2001
Short-term borrowings:		
RR denominated borrowings	11 134	38,581
Foreign currency denominated borrowings	75 926	63,496
	87,060	102,077
Current portion of long-term borrowings (see Note 17)	97,763	91,013
	184,823	193,090

Short-term RR denominated borrowings had average interest rates ranging from 5.0% to 20.1% and from 5.0% to 25.0% for the years ended 31 December 2002 and 2001, respectively. Short-term foreign currency denominated borrowings had average interest rates ranging from 5.0% to 15.5% and from 6.5% to 16.0% for the years ended 31 December 2002 and 2001, respectively.

In 2002 OAO Gazprom placed RR 5,000 of bonds due 3 November 2005 with an interest rate of 15% payable every 6 months and a put option on 14 November 2003. The fair value of the put option is RR 43 as of 31 December 2002.

Included within the current portion of long-term borrowings as of 31 December 2001 is an interest free loan provided by RAO UES with a fair value of RR 8,754 and nominal value of RR 10,140. The loan was received on 27 December 2001. The purpose of the loan was to finance settlements of current tax liabilities of the Group's subsidiaries. The loan was settled in cash during the year ended 31 December 2002.

17 LONG-TERM BORROWINGS

	Currency	Due	31 December 2002	31 December 2001
Long-term borrowings payable to:				
Credit Lyonnais	US dollar	2001-2005	54,325	80,290
Dresdner Bank AG	US dollar	2001-2005	39,219	59,515
Salomon Brothers AG	US dollar	2002-2009	38,849	-
Intesa BCI	US dollar	2001-2007	23,959	32,945
Bayerische Hypo-und Vereinsbank AG	US dollar	2002-2008	23,557	-
OAO Vneshtorgbank	US dollar	2001-2004	21,330	23,285
Mannesmann (Deutsche Bank AG)	Euro	2001-2008	17,908	19,636
an International banking consortium	Euro	2001-2007	11,728	13,018
Societe Generale	US dollar	2002-2008	10,348	-
OAO Sberbank RF	Roubles	2001-2003	-	11,681
a German banking consortium	Euro	2001-2007	8,872	10,943
SACE	US dollar	2002-2012	7,435	1,845
ABN AMRO	US dollar	2002-2004	6,473	-
Credit Suisse First Boston	US dollar	2001-2006	5,366	7,615
Bayerische Hypo-und Vereinsbank AG	Euro	2001-2006	6,037	7,273
Moscow Narodny Bank Limited	US dollar	2001-2006	7,507	6,969
Fuji Bank	US dollar	2003-2010	9,598	6,383
OAO Alfa Bank	US dollar	2002-2004	4,776	-
Eurobonds issued by AB Gazprombank (ZAO)	Euro	2001-2003	8,978	6,099
a Hungarian banking consortium	US dollar	2001-2005	3,858	4,544
Other long-term borrowings	Various	Various	36,243	36,385
Total long-term borrowings			346,366	328,426
Less: current portion of long-term borrowings			(97,763)	(91,013)
			248,603	237,413

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

17 LONG-TERM BORROWINGS (continued)

	31 December 2002	31 December 2001
RR denominated borrowings (including current portion of RR 17,834 and RR 27,991 as of 31 December 2002 and 2001, respectively)	31,548	39,767
Foreign currency denominated borrowings (including current portion of RR 79,929 and RR 63,022 as of 31 December 2002 and 2001, respectively)	314,818	288,659
	346,366	328,426

Due for repayment:	31 December 2002	31 December 2001
Between one and two years	92,378	92,063
Between two and five years	132,010	124,826
After five years	24,215	20,524
	248,603	237,413

Long-term borrowings include fixed rate loans with a carrying value of RR 120,134 and RR 71,294 and fair value of RR 120,010 and RR 68,243 as of 31 December 2002 and 2001, respectively. All other long-term borrowings have variable interest rates linked to LIBOR, and the carrying amounts approximate fair value.

The group does not have formal hedging arrangements to mitigate its foreign exchange risk or interest rate risk.

The weighted average effective interest rates at the balance sheet date were as follows:

	31 December 2002	31 December 2001
Fixed rate RR denominated long-term borrowings	15.01%	16.15%
Fixed rate foreign currency denominated long-term borrowings	8.14%	7.84%
Variable rate foreign currency denominated long-term borrowings	4.68%	6.33%

As of 31 December 2002 and 2001 loans and borrowings of RR 192,918 and RR 184,243, respectively, inclusive of current portion of long-term borrowings, are secured by revenues from export supplies of gas to Europe.

The Group has no subordinated debt and no debt that may be converted into an equity interest in the Group.

As of 31 December 2002 long-term bank borrowings included loans from Salomon Brothers AG received in 2002 in connection with the issuance of USD 500 million of Loan Participation Notes due 2007 with an interest rate of 9.125% and of USD 700 million of Loan Participation Notes due 2009, with an interest rate of 10.5%. The Notes were issued by, but without recourse to, Salomon Brothers AG with the sole purpose of financing a loan to OAO Gazprom. The USD 700 million Loan Participation Notes have a put option due on 21 October 2005. The fair value of the put option is RR 766 as of 31 December 2002.

As of 31 December 2001 other long-term borrowings include RR 3,207 of coupon documentary bearer bonds issued by OAO Gazprom in 1999. The issue amounted to 3.0 million bonds, each with a nominal value of 1,000 roubles and a due date of 15 April 2003. During the years 2000 and 2001, the Group repurchased 577 thousand bonds. As of 31 December 2002 the bonds were resold to external parties and are included within short-term borrowings. The total liability recorded in respect of the bonds excludes the unamortized discount related to future periods.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

18 PROFIT TAX

In August 2001 the Profit tax chapter of the Tax Code was enacted, which changed the profit tax rate to 24% on profits for non-banking and banking activities. This rate became effective starting from 1 January 2002. During the year ended 31 December 2001 the Group accrued current profit tax at the rate of 35% and 43% on the profits from non-banking and banking activities, respectively.

Profit before profit tax for financial reporting purposes is reconciled to profit tax expense as follows:

	Year ended 31 December 2002	2001
Profit before profit tax and minority interest	165,754	231, 729
Theoretical tax charge at a statutory rate (24% and 35% for the years ended 31 December 2002 and 2001, respectively)	(39,781)	(81,105)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Inflationary effects	(63,278)	(101,338)
Non-deductible expenses	(40,665)	(40,535)
Statutory tax concessions	-	13,721
Other non-temporary differences	7,592	8,167
Effect of change in tax rate	-	(12,101)
Profit tax expense	(136,132)	(213,191)

Inflationary effects principally include the impact of inflation on shareholders' equity, deferred tax assets and liabilities at the beginning of the reporting period and current tax expense.

Profit tax expense in the consolidated statement of income is stated net of RR 35 and RR 950 of tax attributable to gains arising on treasury share transactions for the year ended 31 December 2002 and 2001, respectively (see Note 4).

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24%.

	31 December 2002	Differences recognition and reversals	Effect of changes in tax legislation	Effect of deconsolida-tion of NRB	31 December 2001
Tax effects of taxable temporary differences:					
Property, plant and equipment	(67,005)	(74,436)	(30,171)	-	37,602
Accounts receivable	-	-	19,727	-	(19,727)
Investments	(4,407)	(6,741)	-	3,276	(942)
Inventories	(1,855)	(803)	-	-	(1,052)
	(73,267)	**(81,980)**	**(10,444)**	**3,276**	**15,881**
Tax losses carryforward	10,248	10,248	-	-	-
Total net deferred tax (liabilities) assets	**(63,019)**	**(71,732)**	**(10,444)**	**3,276**	**15,881**

Deferred tax assets and liabilities arise mainly from differences in the taxable and financial reporting bases of property, plant and equipment and accounts receivable. These differences for property, plant and equipment are historically due to the fact that a significant proportion of the tax base is based upon independent appraisals, the most recent of which was recognised as of 1 January 2001, while the financial reporting base is historical cost restated for changes in the general purchasing power of the RR.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

18 PROFIT TAX (continued)

Following the enactment of Chapter 25 "Profit tax" of the Russian Federation Tax Code on 1 January 2002, the profit tax regulations allowed for different tax depreciation lives for different groups of property, plant and equipment. In accordance with the tax regulations, the Group recognised shorter tax depreciation lives effective 1 January 2002, resulting in increased tax depreciation and a RR 30,171 increase in the deferred tax liability attributable to property, plant and equipment as of 31 December 2002.

The revised tax depreciation lives also gave rise to current period tax losses in the statutory books of OAO Gazprom. Statutory entities can carry forward tax losses generated in an individual period for ten years, subject to a maximum utilization of 30% of the total amount of taxable profit each year. This resulted in a recognition of a deferred tax asset of RR 10,248 as of 31 December 2002, as management believes it is probable that these losses will be realized through offset against future taxable profit.

The deferred tax liability attributable to accounts receivable balances reversed in the year ended 31 December 2002 principally as a result of the change in the underlying tax legislation, effective 1 January 2002, to recognize sales revenue for profit tax purposes on an accrual rather than a cash basis.

The difference between the amount of temporary differences recognition and reversals for the year ended 31 December 2002 and respective deferred profit tax expense recognised in the consolidated statement of income for the year ended 31 December 2002 arises from transactions with treasury shares and is recognised in the consolidated statement of changes in shareholders' equity.

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one company of the Group is not offset against a deferred tax liability of another company. As at 31 December 2002 deferred tax assets in the amount of RR 9,835 have not been recorded for the deductible temporary differences for which it is not probable that sufficient taxable profit will be available to allow the benefit of that deferred tax asset to be utilised.

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 105,453 and RR 54,674 as of 31 December 2002 and 31 December 2001, respectively. A deferred tax liability on these temporary differences was not recognized because management controls the timing of the reversal of the temporary differences and believes that they will not reverse in the foreseeable future.

19 FINANCIAL INSTRUMENTS

Available-for-sale investments: amounts reported in the statement of income

The Group adopted IAS 39 at 1 January 2001. The impact on shareholders' equity at 1 January 2001 was a net gain of RR 627 in retained earnings for the re-measurement of available-for-sale securities, stated at fair value as of 1 January 2001.

	31 December 2002	31 December 2001
Unrealized fair value losses, net	(4,828)	(1,211)
Realized gains on sale, net	1,099	218
Losses on available-for-sale investments, net	(3,729)	(993)

Derivative financial instruments

As of 31 December 2002 the Group's banking subsidiaries had outstanding contracts to purchase and sell precious metals and foreign currencies at the market price at the date of maturity. The Group expects to settle these contracts in the normal course of business. These instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions.

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19 FINANCIAL INSTRUMENTS (continued)

The following table provides an analysis of the Group's position and fair value of derivatives outstanding as of the end of the reporting period.

	31 December 2002		31 December 2001	
	Notional principal	**Fair value**	**Notional principal**	**Fair value**
Deliverable securities forward contracts	951	1,013	708	708
Deliverable forward currency contracts	651	655	4,062	4,071
Deliverable forward precious metal contracts	-	-	2,359	2,429
Written foreign currency option contracts	-	-	11,667	11,667
Total	1,602	1,668	18,796	18,875

As of 31 December 2001 the Group had outstanding forward foreign exchange contracts with Russian and foreign banks whereby it had agreed to buy or sell Russian Roubles in exchange for another currency at an exchange rate agreed to at the date of the contract. Some of these contracts were entered into prior to 17 August 1998 and matured during 1998, but had not yet been settled. The Group has been able to settle outstanding contracts with some counterparties and any resultant gains or losses have been recorded in the consolidated statement of income.

The Civil Code of the Russian Federation stipulates a three-year period for commencing action to enforce contracts. This period expired during 2001. On the basis of legal advice regarding the enforceability of these contracts under Russian law, market practices and the activities of other participants in the derivatives market in Russia, as well as a significant passage of time, management believes these contracts with domestic banks were no longer legally enforceable, and no losses will arise for the Group as a result of these contracts. Management has therefore not recorded any liabilities in respect of these contracts with domestic banks in the consolidated financial statements. Liabilities recorded under these contracts before 2001, amounting to RR 9,340, were released and recorded as derivative gains within operating expenses for the year ended 31 December 2001. The remaining written foreign currency option contracts with the principal amount of RR 11,667 at 31 December 2001 were due mostly by the Group banking subsidiary OAO AKB National Reserve Bank to foreign customers. In July 2002 the Group sold a 37% interest in the bank (see Note 28) and, accordingly, as of 31 December 2002 did not include the results of bank's operations into the Group's consolidated financial statements.

20 PROVISIONS FOR LIABILITIES AND CHARGES

Notes		31 December 2002	31 December 2001
	Provision for pension obligations	19,386	13,921
31	Provision for environmental liabilities	2,368	1,377
	Other	235	4,749
		21,989	20,047

During the year ended 31 December 2002, RR 4,129 of provisions for liabilities and charges of OAO AKB National Reserve Bank were deconsolidated (see Note 28).

Total expenses associated with pension obligations are included within operating expenses in the consolidated statement of income and amount to RR 5,813 and RR 3,525 for years ended 31 December 2002 and 2001, respectively.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

20 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The amounts recognized in the balance sheet are as follows:

	31 December	
	2002	**2001**
Present value of obligations (unfunded)	49,034	24,899
Unrecognised actuarial losses	(28,095)	(10,978)
Unrecognised past service cost	(1,553)	-
Net liability	19,386	13,921

The amounts recognized in the statement of income are as follows:

	Year ended 31 December	
	2002	**2001**
Current service cost	1,261	1,613
Interest cost	3,392	1,912
Net actuarial losses	434	-
Vested prior service cost	726	-
Net expense recognised in the statement of income	5,813	3,525

Movements in the net liability recognised in the balance sheet are as follows:

	Year ended 31 December	
	2002	**2001**
Net liability at the beginning of the reporting period	13,921	10,714
Net expense recognised in the income statement	5,813	3,525
Benefits paid	(348)	(318)
Net liability at the end of the reporting period	19,386	13,921

Principal actuarial assumptions used (expressed as weighted average):

	31 December	
	2002	**2001**
Discount rate (real)	5%	8%
Future salary increases (real)	2%	2%
Employees average remaining working life (years)	19	17

21 SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR 325,194 as of 31 December 2002 and 2001 and consists of 23.7 billion ordinary shares, each with a historical par value of RR 5.

Dividends

In 2002, the Group accrued and paid total dividends in the nominal amount of RR 0.44 per share in respect of 2001. In 2001, the Group accrued and paid final dividends for the year ended 31 December 2000 in the nominal amount of RR 0.23 per share.

In 2003 the Board of Directors recommended payment of a final dividend for the year ended 31 December 2002 in the amount of RR 0.40 per share. Because this decision of the Group management was reached after the balance sheet date and is subject to approval of the General shareholders meeting, the final dividend proposed in respect of 2002 has not been recognised in the consolidated balance sheet. If approved, the final dividend of RR 9,469 (including income tax on dividends in the amount of RR 667) will be paid prior to 31 December 2003.

Treasury shares

As of 31 December 2002 and 2001, subsidiaries of OAO Gazprom held 3,841 and 2,672 million of the ordinary shares of OAO Gazprom. The Group controls the voting rights of these shares.

In September 2002 the Group entered into an agreement with OAO Stroytransgaz to establish a joint activity which was formally established in October 2002. The Group contributed promissory notes of OAO Gazprom with a fair value of RR 4,759 (face value RR 5,719) payable in January 2004 and OAO Stroytransgaz contributed 1,144 million of ordinary shares of OAO Gazprom. Voting rights for the ordinary shares of OAO Gazprom, held by the joint activity are controlled by the Group (see Note 33). Accordingly, as of 31 December 2002, the Group's contribution into the joint activity with OAO Stroytransgaz was classified as investment in treasury shares, and classified as a deduction from shareholders' equity.

Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement to the equivalent purchasing power of the Rouble as of 31 December 2002. Also, retained earnings and other reserves include translation differences of RR 2,052 and RR (1,532) arising on the translating of the net assets of foreign subsidiaries and associated undertakings for the years ended 31 December 2002 and 2001, respectively.

Other reserves include a statutory fund for social assets, created at the time of privatisation in accordance with Russian legislation. From time to time, the Group negotiates to return certain of these assets to governmental authorities, and this process may continue. Social assets with a net book value of RR 2,133 and RR 5,360 have been transferred to governmental authorities during the years ended 31 December 2002 and 2001, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

The statutory accounting reports of the parent company, OAO Gazprom, are the basis for profit distribution and other appropriations. The basis of distribution is defined by legislation as the current year net profit, as calculated in accordance with RAR. For 2002, the statutory profit for the parent company was RR 53,513. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

22 SALES

	Year ended 31 December	
	2002	**2001**
Gas sales (including excise tax and net of VAT and custom duties) to customers in:		
Russian Federation	159,642	133,187
Former Soviet Union (excluding Russian Federation)	61,506	56,221
Europe	433,085	520,647
Gross sales of gas	654,233	710,055
Excise tax	(125,195)	(123,213)
Net sales of gas	529,038	586,842
Sales of gas condensate and oil and gas products (net of sales taxes)	56,647	74,640
Gas transportation sales	18,028	18,226
Other revenues	40,974	33,259
	644,687	712,967

A significant part of the natural gas sold by the Group in Europe is transported through the territory of Ukraine. The existing contract with the major customer in Ukraine, the Group's largest FSU customer, stipulates that transit services provided to the Group in Ukraine are settled by gas sales. For the years ended 31 December 2002 and 2001 net gas sales to Ukraine in settlement of transit services were RR 33,442 (26.2 bcm) and RR 27,440 (21.9 bcm), respectively.

As a result of consolidation of regional trade houses beginning in 2002 the Group incurred excise tax on domestic sales in the amount of RR 14,469 for the year ended 31 December 2002 (see Note 28).

Gas transportation sales (net of VAT) are primarily comprised of sales to companies of the Itera Group totalling RR 13,920 (61 bcm) and RR 15,936 (64 bcm) for the years ended 31 December 2002 and 2001, respectively. Trade receivables in respect of gas transportation services supplied to the Itera Group amounted to RR 4,029 and RR 11,994 as of 31 December 2002 and 2001, respectively. The Itera Group is a producer and distributor of gas in the Russian Federation and other former Soviet Union countries.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

23 OPERATING EXPENSES

	Year ended 31 December	
	2002	2001
Transit costs	102,632	95,105
Depreciation	93,454	99,868
Staff costs	65,717	59,456
Materials	47,310	59,602
Taxes other than on income	43,975	46,289
Repairs and maintenance	24,218	21,552
Cost of goods for resale, including refined products	17,900	21,085
Impairment provision for accounts receivable	17,411	35,070
Electricity	13,449	11,430
Processing services	13,226	12,595
Purchased gas	9,957	7,466
Social expenses	7,013	6,088
Losses on disposal of property, plant and equipment	6,405	5,849
Insurance	5,825	4,147
Pension expense	5,813	3,525
Research and development	4,464	4,360
Impairment provision for investments and other long-term assets	-	2,550
Release of provision on forward foreign exchange contracts	-	(9,340)
(Release of) provision for impairment of assets under construction	(6,883)	6,503
Other	24,827	13,643
	496,713	506,843

In 2001 various Group subsidiaries purchased 1.4 bcm of gas from Itera Group companies for RR 740.

Due to changes in the tax legislation of the Russian Federation, effective 1 January 2001, accounts receivable written off are subject to VAT. For the year ended 31 December 2001, this resulted in a charge of RR 10,303 related to VAT on accounts receivable balances written off during the period. The charge is included within the impairment provision for accounts receivable.

Taxes other than on income consist of:

	Year ended 31 December	
	2002	2001
Mineral severance tax	20,485	-
Road users tax	10,369	9,924
Property tax	9,371	9,563
Royalty tax	-	12,633
Mineral restoration tax	-	9,090
Other taxes	3,750	5,079
	43,975	46,289

Taxes other than on income included in operating expenses are computed as follows:

- Effective 1 January 2002, the royalty and mineral restoration taxes were abolished and replaced by a mineral severance tax. The rate of mineral severance tax is 16.5% of the value of gas produced from gas condensate fields and RR 340 per ton of oil and gas condensate produced from oil and gas condensate fields. The latter rate is subject to adjustments depending on fluctuations of oil price and the RR exchange rate;

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23 OPERATING EXPENSES (continued)

- Road users tax is charged on sales by Group entities at the rate of 1.0%. An additional RR 2,261 of road users' tax was accrued in 2002 in respect of unpaid accounts receivable as of 31 December 2002 as the tax is abolished from 1 January 2003;
- Property tax is imposed at a maximum rate of 2.0% on the average annual net book value of fixed assets, intangible assets, inventory and (effective from 1 January 2001) on assets under construction which were not completed within contracted terms. Legislation provides for the exclusion of trunk pipelines from the taxable base;
- In 2001 royalty tax was imposed at rates ranging from 6.0% to 16.0% of the sales value of gas and other hydrocarbons produced. The actual rates of the tax were dictated in field licenses and were based on various factors;
- In 2001 mineral restoration tax was charged at the rate of 10.0% of the sales value of gas and other hydrocarbons sold by the production subsidiaries paid. Under legislation, in 2001 up to 100% of mineral restoration tax assessments could have been offset by a sum equal to the value of certain exploration works performed and paid for by the Group. In 2001 the Group recovered 32.4% of mineral restoration tax assessments using this provision.

All taxes and rates discussed above are calculated based on amounts recorded in accordance with Russian statutory accounting regulations.

24 GAINS ON AND EXTINGUISHMENT OF RESTRUCTURED LIABILITIES

	Year ended 31 December	
	2002	**2001**
Gain on extinguished restructured tax liabilities	9,435	-
Gain on restructured other liabilities	3,124	1,596
Gain on restructured tax liabilities	1,349	21,526
	13,908	23,122

During 2002 an amicable agreement was signed by OAO AK Sibur with its creditors to restructure its liabilities (see Note 28). The present value of RR and foreign currency denominated liabilities, discounted at 17.1% and 8.7%, respectively, is RR 10,373. The resulting decrease is accounted for as an extinguishment of liability and the gain of RR 3,124 has been recognised in the consolidated statement of income. The increase of the carrying amount of the liability in subsequent years, as a result of the accretion of the discount, will be recognised in the statement of income as an interest expense.

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25 RECONCILIATION OF RAR PROFIT TO IFRS NET PROFIT

	Year ended 31 December	
	2002	2001
RAR profit per consolidated statutory accounts	121,598	115,565
Effects of IFRS adjustments:		
Deferred tax expense	(81,945)	(118,234)
Transition period current profit tax expense	(20,203)	-
Net effect of additional taxes other than on income	(2,637)	(3,181)
Impairment provision for accounts receivable	(10,386)	(10,358)
Other impairment provisions	3,503	(7,028)
Monetary gain	31,380	33,513
Net effect on indexation of revenues and costs	10,221	25,450
Discount related to restructured tax and other liabilities	4,473	21,526
Unamortized discount related to extinguished restructured penalties and interest	(16,259)	-
(Losses) gains on available-for-sale investments	(4,828)	6,381
Release of provision on forward foreign exchange contracts	-	9,340
Elimination of gain from sale of treasury shares	(1,057)	(4,332)
Net (increase) decrease in depreciation charge	(3,887)	6,248
Derecognition of income related to penalties and interest	(4,264)	(24,588)
Other	3,246	(37,103)
IFRS net profit	28,955	13,199

26 EARNINGS PER SHARE

Earnings per share has been calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares (see Note 21).

There were 20.8 billion and 21.0 billion weighted average shares outstanding for the years ended 31 December 2002 and 2001 respectively.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

27 NET CASH PROVIDED BY OPERATING ACTIVITIES

	Year ended 31 December 2002	2001
Profit before profit tax and minority interest	165,754	231,729
Adjustments to net profit before profit tax		
Depreciation	93,454	99,868
Impairment provision for accounts receivable	17,411	35,070
(Release of) charge for other impairment provisions, net	(8,602)	10,066
Net unrealised foreign exchange losses	14,474	9,378
Interest expense on borrowings and promissory notes	27,602	34,942
Gains on and extinguishment of restructured liabilities	(13,908)	(23,122)
Losses on disposal of property, plant and equipment	6,405	5,849
Monetary effects on non-operating balances	(53,750)	(65,461)
Interest income	(10,636)	(14,184)
Increase (decrease) in provisions for liabilities and charges	6,071	(25,979)
Net (decrease) increase in long-term assets	(4,054)	26,486
Net increase in long-term liabilities	7,038	-
Non-cash additions to property, plant and equipment and other long-term investments	(44,398)	(60,220)
Losses on fair value adjustments for trading and available-for-sale investments	4,828	4,248
Share of net income from associated undertakings	(4,285)	(4,087)
Total effect of adjustments	37,650	32,854
	203,404	264,583
Changes in working capital		
Decrease in accounts receivable and prepayments	57,234	73,609
Decrease (increase) in inventories	5,582	(4,791)
Decrease (increase) in other current assets	6,436	(23,748)
(Decrease) increase in accounts payable and accrued charges, excluding interest, dividends and capital construction	(29,096)	15,270
Decrease in taxes payable (other than profit tax)	(38,954)	(63,878)
(Increase) decrease in available-for-sale and trading investments	(9,363)	5,433
Total effect of working capital changes	(8,161)	1,895
Profit tax paid	(35,132)	(105,189)
Net cash provided by operating activities	**160,111**	**161,289**

Total cash taxes paid:

	Year ended 31 December 2002	2001
Excise	128,778	129,734
VAT	39,131	67,295
Profit tax	35,132	105,189
Custom duties	27,606	40,983
Mineral severance tax	20,871	-
Road users tax	11,628	14,229
Royalty and mineral restoration tax	-	21,260
Property tax	5,660	8,457
Other	19,757	21,511
Total taxes paid	**288,563**	**408,658**

28 SUBSIDIARY UNDERTAKINGS

Principal subsidiary undertakings, 100% owned and incorporated in the Russian Federation

OOO Astrakhangazprom	OOO Gazexport	OOO Podzemgazprom
OOO Bashtransgaz	OOO Informgaz	OOO Samaratransgaz
OOO Burgaz	OOO IRTs Gazprom	OOO Severgazprom
OOO VNIIgaz	OOO Kavkaztransgaz	OOO Servicegazprom
OOO Volgogradtransgaz	OOO Kaspygazprom	OOO Szhizhenny gas
OOO Volgotransgaz	OOO Kubangazprom	OOO Surgutgazprom
OOO Gazkomplektimpex	OOO Lentransgaz	OOO Tattransgaz
OOO Gaznadzor	OOO Mezhregiongaz	OOO Tomsktransgaz
OOO Gazobezopasnost	OOO Mostransgaz	OOO TyumenNIIgiprogaz
OOO Gazpromavia	OOO Nadymgazprom	OOO Tyumentransgaz
OOO Gazprominvestholding	OOO Nadymstroygazdobytcha	OOO Uraltransgaz
OAO Gazprom-Media	OOO Novourengoysky GCC	OOO Urengoygazprom
OOO Gazsvyaz	OOO Noyabrskgazdobycha	OOO Yugtransgaz
OOO Gaztorgpromstroy	OOO Orenburggazprom	ZAO Yamalgazinvest
OOO Gazflot	OOO Permtransgaz	OOO Yamburggazdobycha

These subsidiaries are mainly involved in production, processing, transportation and sale of gas and hydrocarbon products.

Other subsidiary undertakings, 100% owned and incorporated outside the Russian Federation

Company	Type of activity	Location
Gazprom Finance B.V.	Investing	Netherlands
Gazprom UK Ltd.	Investing, banking	United Kingdom
Gazprom UK Trading Ltd.	Gas distribution	United Kingdom
Zarubezhgaz Management und Beteiligungsgesellschaft GmbH (ZMB)	Gas distribution	Germany
Zarubezhgaz Erdgashandel GmbH (ZGG)	Production, processing and sale of gas	Germany
Leadville Investments Ltd.	Investing	Cyprus

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28 SUBSIDIARY UNDERTAKINGS (continued)

Other subsidiary undertakings, less than 100% owned

	Percent of share capital held as of 31 December		
	2002	**2001**	**Location**
OAO Gazavtomatika	49	49	Russia
OAO Gazenergoservice	51	51	Russia
AB Gazprombank (ZAO)	99	98	Russia
OAO Gazsibcontract	96	96	Russia
ZAO Gerosgaz	51	51	Russia
ZAO Kostromatrubinvest	99	99	Russia
ZAO Purgaz	51	19	Russia
ZAO Rosshelf	53	53	Russia
OAO AK Sibur	51	51	Russia
ZAO AKB Sovfintrade	94	94	Russia
OAO Spetsgazavtotrans	51	51	Russia
OAO TV Company NTV	65	65	Russia
OAO Volgogradneftemash	51	51	Russia
OAO Vostokgazprom	84	51	Russia
Wintershall Erdgas Handelshaus GmbH (WIEH)	50	50	Germany
Wintershall Erdgas Handelshaus Zug AG (WIEE)	50	50	Germany
OAO Zapsibgazprom	77	34	Russia

OAO AKB National Reserve Bank

In connection with changes in RF Federal law No.208-FZ of 26 December 1995 “On Joint Stock Companies”, effective from 1 January 2002, the Group was not able to exercise its conversion rights on preference shares in OAO AKB National Reserve Bank. At the same time, the Group lost majority representation on the Board of Directors and no longer exercised control over the activities of the bank. Accordingly, effective 1 January 2002 the Group’s investment in the bank was classified as an investment in an associated undertaking. In July 2002, in accordance with the decision of the Board of Directors, the Group disposed of 37.0% of ordinary shares and all of its preference shares in OAO AKB National Reserve Bank with total carrying value of RR 1,979, in exchange for consideration consisting of promissory notes issued by OAO AKB National Reserve bank with a fair value of RR 364 payable in June 2003, and 50 million of ordinary shares of OAO Gazprom. As of the date of the transaction ordinary shares of OAO Gazprom were traded at RR 30.6 per share (in nominal roubles). No gain or loss resulted from the disposal of the Group’s interest in OAO AKB National Reserve Bank. Following the transaction, the Group retains a 3.0% interest in OAO AKB National Reserve Bank, which is recorded within other long-term investments.

Rosshelf

The Rosshelf joint activity was established to develop the Prirazlomnoye and Schtokmanovskoye fields in the Barents Sea. OAO Gazprom and its subsidiary ZAO Rosshelf had 99.1% and 0.9% interest in the project, respectively. In October 2002 OAO Gazprom and its subsidiary ZAO Rosshelf signed an amendment to the Rosshelf joint activity agreement that provided for an additional participant – ZAO Sevmorneftegaz. ZAO Sevmorneftegaz is a company jointly controlled by ZAO Rosshelf and OAO Rosneft-Purneftegaz. Under the agreement ZAO Sevmorneftegaz will make a non-cash contribution valued at RR 4,334 in exchange for a 48.9% interest in the Rosshelf joint activity (see Note 33).

OAO Vostokgazprom

In April 2002 the Group acquired an additional 32.8% of the voting shares of its production subsidiary OAO Vostokgazprom, increasing its interest from 51.0% to 83.8%. The consideration of RR 2 settled in cash approximates the fair value of purchased assets.

28 SUBSIDIARY UNDERTAKINGS (continued)

OAO Zapsibgazprom

In April 2002 the Federal Securities Commission cancelled the registration of additional stock issued by OAO Zapsibgazprom, a subsidiary of the Group. As a result, the Group increased its interest in the charter capital of OAO Zapsibgazprom from 34.0% to 51.1%.

In December 2002 the Group disposed of its 12% interest in OAO Arcticgas with a carrying value of RR 1 in exchange for 25.6% interest in OAO Zapsibgazprom and additional cash consideration of USD 2.95 million, increasing its interest in the ordinary share capital of OAO Zapsibgazprom from 51.1% to 76.7%. No significant gain or loss resulted from this transaction.

Media companies

Effective 1 January 2002 the Group’s interests in media companies were reclassified from short-term available-for-sale investments to subsidiary undertakings as management announced its intention to operate these companies as subsidiaries rather than dispose of them. The media companies do not materially impact the financial position of the Group.

In July 2002 the Group acquired additional interests in ZAO Media-Most, in OAO TV Company NTV and in other media subsidiaries. Additionally, the Group acquired payables and promissory notes to third parties due by these companies. The consideration was partially settled in cash and partially through the forgiveness of debt owed to OAO Gazprom. As a result of this transaction the Group increased its interest in OAO TV Company NTV from 65.0% to 95.6% and in ZAO Media-Most from 14.3% to 38.6%. The Group has also increased its controlling interests in the other media subsidiaries. The transaction also provided for the Group to receive a further 39.6% interest in ZAO Media-Most but as of 31 December 2002 this interest was under arrest and the Group did not control the voting rights for these shares. As of 31 December 2002 ZAO Media Most was under liquidation and accordingly, the Group classified its 38.6% interest as other long-term investments.

In October 2002 the Group signed a framework agreement to sell non-controlling interests in several media companies, including OAO TV Company NTV, to Eurofinance Group (as nominee), the consideration for which is to be partially settled in cash and partially through the settlement of certain debt obligations of ZAO Media-Most and its media companies. The disposed interests primarily comprised those acquired in July 2002. As a result, the Group’s interest in OAO TV Company NTV reduced to 65.3%. Under the framework agreement, Eurofinance Group shall contribute cash and these acquired interests into a new media holding company, which will be controlled and majority-owned by OAO Gazprom. The Group's contribution into the new holding company will comprise the remaining interests in its media subsidiaries. The transactions are expected to close in the third quarter of 2003. Management does not believe that the financial effect of these transactions will be material to the Group. As of 31 December 2002 the Group continues to hold a controlling interest in the above media companies.

ZAO Purgaz

In April 2002 the Group completed the repurchase of 32.0% of the shares in ZAO Purgaz from Itera pursuant to the repurchase option provided by a share purchase agreement dated 10 February 1999. As a result, the Group’s interest in ZAO Purgaz increased from 19.0% to 51.0%. ZAO Purgaz has a licence for the development of the Gubkinskoye gas field in western Siberia. In connection with the acquisition of these ZAO Purgaz shares, the Group paid Itera RR 33 thousand in cash and financed ZAO Purgaz repaying RR 6,594 of original financing provided by Itera to ZAO Purgaz to finance development work. The consideration approximated the fair value of the incremental interest in the net assets acquired.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

28 SUBSIDIARY UNDERTAKINGS (continued)

OAO AK Sibur

In the first quarter of 2002 external supervision was introduced in respect of OAO AK Sibur under decision of the arbitration court. The arbitration court has cancelled the decision on placement of additional stock issue as a result of which OAO Gazprom could have lost control over OAO AK Sibur. As a result, OAO Gazprom maintains control over OAO AK Sibur.

On 10 September 2002 the creditors' meeting approved an amicable settlement agreement, which was subsequently approved by the court. The agreement provides for the restructuring and rescheduling of OAO AK Sibur's debts generally over a period of 8 years with first payments due in 2004 (see Note 24).

Regional gas companies

Commencing in 1999 the Group has been participating in the creation of regional companies involved in the distribution of gas in Russia. In 2002 the interest of the Group in the majority of such companies increased from 20% to 51% of their share capital and these companies were consolidated.

29 MINORITY INTEREST

	Year ended 31 December	
	2002	2001
Minority interest at the beginning of the reporting period	17,387	11,921
Minority interest share of net profit of subsidiary undertakings	667	5,339
Net change in minority interest as a result of (disposals) acquisitions	(7,877)	127
Minority interest at the end of the reporting period	10,177	17,387

30 RELATED PARTIES

For the purpose of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2002 are detailed below.

Government

The Government of the Russian Federation is the principal shareholder of the Group, directly owns approximately 38.37% of the issued shares of the Group. Government representatives also have the majority of seats on the Board of Directors. As of 31 December 2002 the subsidiaries of the Group held 16.2% of OAO Gazprom shares, through which they are entitled to vote as owners. Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

As a condition of privatisation in 1992, the Government imposed an obligation on the Group to provide an uninterrupted supply of gas to customers in the Russian Federation at government controlled prices.

30 RELATED PARTIES (continued)

Directors' remuneration

OAO Gazprom paid to members of the Board of Directors and Management Committee salary and bonuses of approximately RR 143 and RR 84 for the years ended 31 December 2002 and 2001, respectively. The salary and bonuses of members of the Board of Directors is subject to approval by the General Meeting of Shareholders. Salary and bonus compensation paid to members of the Management Committee is determined by the terms of annual employment contracts.

Associated undertakings

Included within associated undertakings (see Note 11) is the loan receivable from EuRoPol GAZ S.A., in the amount of RR 27,344 and RR 31,117 as of 31 December 2002 and 2001, respectively, issued by AB Gazprombank (ZAO), a subsidiary of the Group, at an interest rate of LIBOR + 2.6 %. Also included within associated undertakings as a component of the carrying amount are USD and euro denominated receivables from EuRoPol GAZ S.A. of RR 8,555 and RR 12,495 as of 31 December 2002 and 2001, respectively.

Associated undertakings include a loan receivable from WINGAS GmbH, in the amount of RR 14,331 and RR 13,732 as of 31 December 2002 and 2001, respectively. The interest rates vary for different loan tranches. As of 31 December 2002 the aggregate effective interest rate for the loan receivable from WINGAS GmbH was 5.56%.

Included within accounts receivable are accounts receivable from Group associates (excluding EuRoPol GAZ S.A.) in the amount of RR 15,767 and RR 17,571 as of 31 December 2002 and 2001, respectively.

During periods ended 31 December 2002 and 2001 the Group sold gas to its associated undertakings in the amount of RR 74,068 and RR 84,821, respectively.

Gas is sold to associated undertakings, except for that sold to AO Moldovagaz, on the basis of long-term contracts, at index prices based on world oil and gas prices. Gas prices per thousand cubic meters for such sales ranged from USD 67 to USD 131 and from USD 75 to USD 144 in the year ended 31 December 2001 and 2002, respectively. Gas is sold to AO Moldovagaz based on annual contracts with fixed prices. Prices of gas per thousand cubic meters sold to Moldova amounted to USD 80 in the year ended 31 December 2002 and 2001, respectively.

The Group's impairment provision on accounts receivable included RR 14,914 and RR 14,378 in respect of amounts due from AO Moldovagaz as of 31 December 2002 and 2001, respectively.

In 2002 the Group purchased gas from ZAO KazRosGaz for RR 140 at USD 28 per tcm. In 2001 no gas was purchased from ZAO KazRosGaz.

In addition, the Group purchased gas transportation services from certain of the associated undertakings, principally EuRoPol GAZ S.A., which amounted to RR 13,795 and RR 10,098 for the year ended 31 December 2002 and 2001, respectively. The cost of these services was determined based on prices of gas sold to these companies.

In October 2002 the Group settled accounts payable due as a contribution to the charter capital of ZAO Armrosgazprom of USD 126 million.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

30 RELATED PARTIES (continued)

OAO AK Sibur

A substantial portion of OAO AK Sibur's transactions were executed with related parties. OAO AK Sibur's related party transactions are mainly with its associated undertakings listed below:

OAO Omskshina
OAO Sibur-Neftekhim
OAO Sibur-Tyumen
OAO Tobolsky NKhK
OOO Togliatti-Kauchuk
OAO Voltair-Prom
OAO Voltair
OAO Tomsky NKhZ
OAO Voronezhsyntezkauchuk
OAO Yaroslavskiy Shinniy Zavod

The table below presents summarised financial information of OAO AK Sibur's and its subsidiaries for the years ended 31 December 2002 and 2001, after Group intercompany eliminations and before adjustments for minority interests:

	Year ended 31 December 2002	Year ended 31 December 2001
Current assets	15,651	23,141
Non-current assets	17,870	7,679
Current liabilities	(27,978)	(46,068)
Non-current liabilities	(24,569)	(4,950)
	(19,026)	(20,198)
Sales	36,047	57,208
Operating expenses	(31,191)	(66,695)
Net loss	(3,732)	(23,703)

OAO Stroytransgaz

OAO Stroytransgaz is a major Russian constructor of pipelines, compressor stations and oil refineries. In the normal course of business, the Group enters into transactions with OAO Stroytransgaz for the construction of pipelines in the Russian Federation on the basis of the results of tenders. During years ended 31 December 2002 and 2001 transactions with OAO Stroytransgaz were entered into under contracts which had been executed by certain prior representatives of the Group's Board of Directors and members of their families who at that time owned significant shareholdings in OAO Stroytransgaz.

OAO Stroytransgaz rendered construction services for the Group in the amounts of RR 32,278 and RR 39,963 for the year ended 31 December 2002 and 2001, respectively. As of 31 December 2002 and 31 December 2001, the Group had advances and receivables due from OAO Stroytransgaz in the amounts of RR 6,276 and RR 8,507, respectively. As of 31 December 2002 and 31 December 2001, the Group had accounts payable to OAO Stroytransgaz in respect of construction of RR 10,911 and RR 18,610, respectively. As of 31 December 2001 receivable due from OAO Stroytransgaz in connection with finance arrangements for construction for the Group undertaken by OAO Stroytransgaz in amount of RR 4,050 net of an impairment provision in the amount of RR 0, was included within other long-term assets.

AEB

In 2002 and 2001 the Group obtained short-term loans from AEB, an associated undertaking of AB Gazprombank (ZAO), for the total amount of RR 4,530 (9.0% interest) and RR 3,385 (14.8% interest), respectively.

30 RELATED PARTIES (continued)

OOO Interprokom

During the years ended 31 December 2002 and 2001, respectively, transactions with OOO Interprokom were entered into under contracts which had been executed by certain prior members of the Board of Directors and a member of the Management Committee of the Company and members of their families who at that time or currently own significant interests in OOO Interprokom.

OOO Interprokom acts as an agent for the Group in the acquisition of equipment and is remunerated for those services based on a fixed commission percentage. OOO Interprokom acted as an agent in the Group's acquisition of RR 8,021 and RR 11,611 of equipment year ended 31 December 2002 and 2001, respectively. As of 31 December 2002 and 2001, the Group had advances and receivables due from OOO Interprokom in the amount of RR 877 and RR 650, respectively. Commission paid to OOO Interprokom amounted to RR 113 and RR 107 for year ended 31 December 2002 and 2001, respectively. As of 31 December 2002 and 2001, the Group had accounts payable to OOO Interprokom in respect of equipment supplies of RR 5,265 and RR 8,708, respectively.

AB Gazprombank (ZAO), the Group's principal banking subsidiary, had outstanding import letters of credit issued on behalf of OOO Interprokom and sub-contractors of OOO Interprokom in the amount of RR 6,982 and RR 9,751 as of 31 December 2002 and 2001 and, respectively. These import letters of credit are issued to third party suppliers in connection with the purchase of equipment by OOO Interprokom on behalf of the Group.

31 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS

Operating environment

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in the Russian Federation. Due to the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. The nature and frequency of these developments and events associated with these risks as well as their effect on future operations and earnings, are not predictable.

Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. Additionally, the Group is subject to various environmental laws regarding handling, storage, and disposal of certain products and is subject to regulation by various governmental authorities. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material adverse effect on the result of operations or financial position of the Group.

Taxation

Russian tax legislation is subject to varying interpretations and frequent changes. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest, which can be significant. Under Russian legislation, penalties are levied at 20% of the tax amount underpaid and interest is charged at a rate of 1/300 of the refinancing rate of the Central Bank of the Russian Federation per day (see Note 15). The Group's tax records remain open to review by the tax and customs authorities with respect to tax liabilities for three years.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble as of 31 December 2002, unless otherwise stated)

31 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS (continued)

Group changes

The Group is continuing to be subject to reform initiatives in the Russian Federation and in some of its export markets and the future direction and effects of any reforms are the subject of political considerations. Potential reforms in the structure of the Group, tariff setting policies, settlements of outstanding debts by governmental entities, and other government initiatives could each have a significant, but undeterminable, effect on enterprises operating in the Group.

Environmental matters

The enforcement of environmental regulation in the Russian federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities which might arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation or regulation cannot be reasonably estimated, but could be material. In the current enforcement climate under existing legislation, the Group management believes that there are no significant liabilities for environmental damage, other than amounts that have been accrued in the consolidated financial statements.

Social commitments

The Group significantly contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees in the areas of its production operations, including contributions toward the construction, development and maintenance of housing, hospitals, transport services, recreation and other social needs.

Financial guarantees

	31 December	
	2002	**2001**
Outstanding guarantees issued on behalf of :		
BSPC	37,258	21,890
Interconnector (UK) Limited	34,963	38,167
Itera Group companies	3,088	4,486
Albustan Investments Ltd	2,843	-
Other	9,555	15,741
	87,707	80,284

Included in financial guarantees are amounts denominated in USD of USD 2,634 million and USD 2,119 million as of 31 December 2002 and 2001, respectively.

In April 2000, credit facilities were provided to BSPC, an associated undertaking (see Note 11), by a group of Italian and Japanese banks for the amount of RR 71,233 (USD 2,053 million) for the construction of the offshore portion of the Blue Stream pipeline. In 2001, the Group was obligated to provide guarantees on behalf of BSPC in respect of RR 39,152 (USD 1,187 million) related to these credit facilities. As of 31 December 2002 and 2001, BSPC had borrowed RR 37,258 (USD 1,172 million) and RR 21,890 (USD 631 million), respectively, of these credit facilities which were guaranteed by the Group, pursuant to its obligation.

The Group provided guarantees on behalf of Interconnector (UK) Limited in connection with equipment and fixed assets leased for the construction of the Interconnector gas pipeline linking the United Kingdom to Continental Europe. The Group has a 10% interest in Interconnector (UK) Limited.

Line “Other” includes mainly guarantees issued by subsidiaries under contracts for purchasing equipment, construction and installation works. As of 31 December 2002 and 2001 this balance includes guarantees issued by OAO AK Sibur to third parties of RR 2,572 and RR 7,723, respectively.

31 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS (continued)

Capital commitments

In the normal course of business, the Group has entered into contracts for the purchase of property, plant and equipment. The Board has approved a capital expenditure budget for 2003 of RR 179,800 including RR 73,840 in respect of capital expenditures related to the Yamal project.

Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 December 2002 no loss is expected to result from these long-term commitments.

Loan commitments

As of 31 December 2002 and 2001 the Group banking subsidiary AB Gazprombank (ZAO) had undrawn loan commitments related to credit facilities issued to external customers in amounts of RR 6,959 and RR 2,804 respectively.

32 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks, including the effects of: changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the financial performance of the Group.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US dollar and the Euro.

In an operational sense, the Group's exposure to foreign exchange risk is reduced by the existence of both costs (principally transit expenses) and income denominated in foreign currency. Similarly, the Group has significant receivables denominated in foreign currency, which in effect act as a partial economic hedge against similarly denominated liabilities, principally long-term borrowings.

The Group has investments in foreign entities (see Notes 11 and 28), whose net assets are exposed to currency translation risk. Currency exposure of the net assets of the subsidiaries is reduced primarily through borrowings denominated in Euro. Exchange differences on the euro loans are recognized in the statement of income.

Interest rate risk

The Group borrows long-term debt principally at variable (LIBOR referenced) rates. Currently the Group does not operate a formal management programme focusing on the unpredictability of financial markets or seeking to minimize potential adverse effects on the financial performance of the Group. The Group has no significant interest-bearing assets.

Credit risk

Financial instruments, which potentially subject the Group to concentrations of credit risk primarily consist of accounts receivable including promissory notes. Credit risks related to accounts receivable are systematically monitored and are considered when impairment provisions are created. A significant portion of the Group's accounts receivable are from local gas distribution companies and energy companies. Although collection of these receivables could be influenced by governmental and other economic factors affecting these industries, management believes there is no significant risk of losses to the Group, other than to the extent to which provision for impairment of receivables has already been made.

32 FINANCIAL RISK FACTORS (continued)

Commodity risk

Revenues generated by the transportation and distribution segments depend on volumes and commodity prices, both of which can be affected by the prices of natural gas and other hydrocarbons. A decline in energy prices could result in a decrease in net income and cash flows. An extended period of low prices could precipitate a decrease in development activities and could cause a decrease in the volume of reserves available for transportation and processing through the Group's systems or facilities and ultimately impact the Group's ability to deliver under its contractual obligations.

33 POST BALANCE SHEET EVENTS

Financial investments

Petrochemical companies

In the third quarter of 2002 the Group signed agreements to acquire additional interests in a number of Russian petrochemical companies, the majority of which were already affiliated with OAO AK Sibur. The consideration to be paid is expected to consist primarily of long-term promissory notes which mature in 2005 with nominal value of RR 19,494. The fair value of the consideration has not yet been determined. As of 31 December 2002 the Group did not complete the majority of transactions and therefore did not control the voting rights associated with the additional interests. In April 2003, following the completion of the legal procedures the Group established control over majority of these companies and thereby increased its controlling interest in the charter capital of OAO AK Sibur from 50.7% to 75.7%. The management believes that the Group will not incur any substantial cash outflow in connection with these acquisitions.

OAO Severneftegazprom

In February 2003 the Group acquired a 51.0% additional interest in OAO Severneftegazprom from the Itera group at their nominal value (RR 102 thousand) and increased its interest in the share capital of OAO Severneftegazprom to 100%. At the same time the Group sold to Itera Group a 10.0% interest in OAO Sibirsky Oil and Gas Company at its carrying value of RR 2.55 plus a 7.8% interest in OAO Tarkosaleneftegaz at its total carrying value of RR 356 . Management believes that the carrying value of consideration paid approximated the fair values of the Group's interest in the net assets acquired. OAO Severneftegazprom, a production company, holds a license for the development of the Yuzhno-Russkoye field.

ZAO Agrochemical Corporation Azot

In February 2003 the Group sold its 40.1% interest in the share capital of ZAO Agrochemical Corporation Azot at its carrying value of RR 394. The shares were sold to the other shareholders of Azot as a result of the latter taking advantage of the pre-emptive purchase rights. Management believes that fair values of the shares being exchanged approximated the contract amounts. In April 2003 the Group re-acquired 33.9% interest for RR 333 mln. Additionally, in May 2003 the Group reached an agreement with the shareholders of ZAO Agrochemical Corporation Azot to acquire an additional 52.64% interest in ZAO Agrochemical Corporation Azot for RR 606.

Rosshelf

In February 2003 ZAO Sevmorneftegaz made its non-cash contribution valued of RR 4,334 in exchange for a 48.9% interest in the Rosshelf joint activity (see Note 28). The effect of this transaction was to decrease OAO Gazprom's direct and indirect interest in the Rosshelf joint activity from 99.1% to 62.9%. Management does not believe that the financial effect of these transactions is material to the Group. As a result of the transaction OAO Gazprom and ZAO Rosshelf will have 48.7% and 2.4% direct interests in the joint activity, respectively.

33 POST BALANCE SHEET EVENTS (continued)

OAO Stroytransgaz

In March 2003 OAO Stroytransgaz terminated its participation in the joint activity agreement with the Group (see Note 21) in return for promissory notes contributed by the Group into this joint activity in October 2002. As a result, the Group now owns (as well as votes) the treasury shares owned by the joint activity.

In April 2003 the Group acquired 25.9% of the ordinary shares of OAO Stroytransgaz. The consideration with the fair value RR 3,335 included investments, promissory notes and cash.

Accounts receivable and prepayments

In March 2003 OOO Lotsman repaid in cash the amounts due under loans issued by the Group's subsidiaries in 2002 (see Note 8).

Borrowings

In January 2003 OAO Gazprom received a loan from Deutsche Bank AG of USD 200 million for a two year period at an interest rate of 9.1% per annum.

In February 2003 OAO Gazprom signed a loan agreement with BNP Paribas Bank of Euro 200 million for one year period at an interest rate of 9.8% per annum.

In February 2003 OAO Gazprom received a loan from Morgan Stanley Bank AG in connection with the issuance of USD 1.75 billion Loan Participation Notes due 2013 at an interest rate of 9.625% per annum.

In March and April 2003 OAO Gazprom received a loan from DEPFA Investment Bank Ltd of USD 500 million due 2008 at an interest rate of 9.8% per annum.

In May 2003 ZGG, a Group subsidiary in Germany, repaid the outstanding balance of the loan payable to an international banking consortium totalling Euro 318 million. At the same time ZGG received another loan from a different consortium totalling Euro 280 million. The new loan bears interest at six-month EURIBOR plus margin. The margin can vary from 1% to 2% depending on the debt service cover ratio. As of the date of the borrowing receipt the interest rate was 4.2% per annum. The loan will be repaid from October 2003 to October 2007 (similar to the replaced loan).

Treasury shares

In March 2003, the Group entered into purchase agreements with OOO Lotsman and OOO Prom-Invest to acquire 286 million ordinary shares of OAO Gazprom for cash consideration of RR 7,635 (USD 0.85 per share).

In May 2003 the Group entered into a sale agreement with an affiliate of Ruhrgas AG to sell 117 million ordinary shares of OAO Gazprom for cash consideration of RR 3,109 (USD 0.86 per share).

OAO Gazprom has enlisted the services of DeGolyer and MacNaughton to perform an independent evaluation of its oil and gas reserves according to internationally accepted standards. DeGolyer and MacNaughton evaluated eighteen selected properties as of December 31, 2001 and twenty selected properties as of 31 December 2002 and has commenced work on certain other properties not previously evaluated. OAO Gazprom continues to utilise the Russian reserve classification for the fields that have not been audited by DeGolyer and MacNaughton. For purposes of the disclosure below the amount of gas reserves attributable to fields not yet evaluated by DeGolyer and MacNaughton has been adjusted to reflect the coefficient of internal estimates to independent valuation. The oil and condensate reserves which have not yet been evaluated to date, are disclosed according to the Russian reserve classification.

The table shown below lists proved and probable reserves estimated by OAO Gazprom and evaluated by DeGolyer and MacNaughton as of 31 December 2002 and 2001. Proved reserves are those that have been proved to a high degree of certainty by analysis of the producing history of a reservoir and/or by volumetric analysis of adequate geological and engineering data. Probable reserves are those that are susceptible of being proved that are based on reasonable evidence of producible hydrocarbons within the limits of a structure or reservoir above known or inferred fluid contacts, but are defined to a lesser degree of certainty because of a more limited well control and/or the lack of definitive production tests.

This definition of reserves assumes that licences to explore, develop and produce oil and gas will be renewed through the economic life of the related reserves. Management believes that proved reserves should include quantities, which are expected to be produced after the expiry dates of Gazprom’s production licences.

Production licences are generally valid for 20 years, and required the holder to pay certain taxes, meet certain environmental requirements and generally certain production quotas. Such licenses may be extended at the initiative of the licence holder, provided that Gazprom is in compliance with approved development plans and meets certain other conditions. Recent legislation, passed after the issue of many Gazprom’s licences provides that licences are granted for a period equal to the economic life of the relevant field. Management believes that each licence issued prior to the new legislation can be extended, upon expiration, for the economic life of the relevant field and it is management’s intention to extend such licences for properties expected to produce subsequent to the licence expiry dates.

Numerous uncertainties are inherent in estimating quantities of proved and probable gas reserves. The accuracy of any reserve estimate is a function of the quality of the available data and engineering and geological interpretation and judgement. The results of drilling, testing, and production after the date of the estimate may require substantial upward or downward revision. In addition, changes in prices could have an effect on the Gazprom reserves because the estimates of reserves are based on prices and costs at the date when such estimates are made.

GAS RESERVES

(trillions of cubic meters)	31 December 2002			31 December 2001		
	Proved	Probable	Proved and Probable	Proved	Probable	Proved and Probable
Fields subject to independent evaluation						
Yamburg	2.936	0.305	3.241	3.084	0.305	3.389
Zapolarnoye	2.778	0.160	2.938	2.815	0.159	2.974
Urengoi	2.691	0.099	2.790	2.842	0.099	2.941
Others*	2.970	0.118	3.088	2.514	0.111	2.625
Total Western Siberia (excluding Yamal)	11.375	0.682	12.057	11.255	0.674	11.929
Yamal	4.352	0.788	5.140	4.352	0.788	5.140
Ural Volga	0.576	0.060	0.636	0.598	0.059	0.657
Total	**16.303**	**1.530**	**17.833**	**16.205**	**1.521**	**17.726**
Fields not subject to independent evaluation**						
Shtokman			2.156			2.156
Others***			2.196			2.617
Total			4.352			4.773
Total OAO Gazprom			**22.185**			**22.499**

* Including pro-rata consolidated interests in Yuzhno-Russkoye and 100% consolidated interests in Gubkinskoye as of 31 December 2002 only
** Represents ABC[1] reserves under Russian reserves classification
*** Including pro-rata consolidated interests in Yuzhno-Russkoye and Gubkinskoye as of 31 December 2001 only

CONDENSATE, OIL and GAS LIQUIDS RESERVES

(millions of tonnes)	31 December 2002			31 December 2001		
	Proved	Probable	Proved and Probable	Proved	Probable	Proved and Probable
Fields subject to independent evaluation	289.7	176.7	466.4	297.4	176.7	474.1
Fields not subject to independent evaluation*			598.4			664.9
Total OAO Gazprom			**1,064.8**			**1,139.0**

* Represents ABC[1] reserves under Russian reserves classification

The disclosure above does not contain any reserves of OAO Gazprom located outside of the Russian Federation or any reserves attributable to properties with unresolved license considerations. All exploration and production licenses were granted to OAO Gazprom in accordance with the Law on Subsoil Resources and Regulation on Licensing the Use of Mineral Resources. OAO Gazprom believes that the Group is in substantial compliance with all its material licenses.

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