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**OPEN JOINT-STOCK COMPANY «GAZPROM»
STATUTORY FINANCIAL (ACCOUNTING) REPORTS
OF THE PARENT COMPANY OAO «GAZPROM»**

AUDIT REPORT

on statutory financial (accounting) reports

To the shareholders of Open Joint-Stock Company «Gazprom»

Auditor

ZAO PricewaterhouseCoopers Audit

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

Audit license № E000376 issued by the Ministry of Finance of the Russian Federation on 20 May 2002. The license is valid until 20 May 2007.

Client

Open Joint-Stock Company «Gazprom»

16 Nametkina St., 117997, Moscow, Russian Federation

State registration certificate № 022.726 issued by Moscow Registration Bureau on 25 February 1993.

Information on licenses held:

- License to geological survey of prospects of oil and gas containing coal formations in the Tabakovsky area No.AST 00091 NP issued by the Natural Resources Committee of the Astrakhan oblast on July 24, 1998. The license is valid through December 31, 2003;
- Licenses to geological survey of the subsoil Nos. ShKM 10902 NP, ShKM 11229 NP, ShKM 11230 NP, IRK 12066 NP, IRK 12067 NP issued by the RF Ministry of Natural Resources and Administration of the Irkutsk oblast in 2000 – 2003. The licenses are valid to 2005-2008.
- License to geological survey of and production from No. SLKh 10994 NR, issued by the RF Ministry of Natural Resources and Administration of the Yamal-Nenets Autonomous Okrug on April 9, 2001. The license is valid through April 1, 2026.
- License to geological survey of and further oil and gas production from No. AST 10866 NR issued by the RF Ministry of Natural Resources and Administration of the Astrakhan oblast on March 14, 2000. The license is valid through December 31, 2004.

AUDIT REPORT**on statutory financial (accounting) reports
of Open Joint-Stock Company «Gazprom»****To the shareholders of open joint-stock company «Gazprom»**

1 We have audited the attached statutory financial (accounting) reports of open joint-stock company «Gazprom» (hereinafter – OAO «Gazprom») for the period from 1 January up to 31 December 2003. Financial (accounting) reports of OAO «Gazprom» consist of Balance Sheet, Profit and Loss Account, Flow of Equity and Funds Report, Cash Flow Statement, Supplement to the Balance Sheet, Explanatory Notes (hereinafter all the reports together are called «financial (accounting) reports»). Financial (accounting) reports were prepared by the management of OAO «Gazprom» in accordance with the Federal Law on Accounting and Regulation on Accounting and Reporting adopted by the decree of the Ministry of Finance of the Russian Federation dated 29 July 1998 № 34H (n). Such statutory financial (accounting) reports differ to a significant extent from those prepared in accordance with International Financial Reporting Standards.

2 Preparation of the statutory financial (accounting) reports is the responsibility of management of OAO «Gazprom». Our responsibility as auditors is to express our opinion on these statutory financial (accounting) reports and on whether the accounting is conducted in accordance with the Russian legislation based on our audit.

3 We conducted our audit in accordance with The Federal Law «On auditing activity», Federal Auditing Standards, International Standards on Auditing and our internal standards.

Our audit was planned and performed to obtain reasonable assurance about whether the statutory financial (accounting) reports are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statutory financial (accounting) reports, assessing the accounting principles and techniques used, rules of statutory financial (accounting) reports preparation, evaluating significant estimates made by the management of OAO «Gazprom» and the overall statutory financial (accounting) reports presentation. We believe that our audit provides a reasonable basis for our opinion on these statutory financial (accounting) reports and on whether the accounting is conducted in accordance with the Russian legislation.

4 In our opinion, the statutory financial (accounting) reports of OAO «Gazprom» attached to this report have been properly prepared to present, in all material respects, the financial position of OAO «Gazprom» as at 31 December 2003 and financial results of its operations for the period from 1 January up to 31 December 2003 in accordance with the Federal Law on Accounting and Regulation on Accounting and Reporting in the Russian Federation adopted by the decree of the Ministry of Finance of the Russian Federation dated 29 July 1998 № 34H (n).

29 March 2004

Director of ZAO

S. Tait

Statutory auditor
Certificate No K 000254
for general audit
termless

A. L. Uzornikova

BALANCE SHEET as of 31 December 2003

thousands of RR

ASSETS	Line code	At beginning of reporting year	At end of reporting year
1	2	3	4
I. Non-current assets			
Intangible assets	110	474	455
including :			
patents, licenses, trade marks (service marks), other similar rights and assets	111	474	455
Fixed assets	120	1 254 216 260	1 291 754 066
including :			
land plots and natural resources	121	1 235	1 235
buildings, machinery and equipment	122	1 252 890 588	1 290 312 515
Construction in progress	130	93 638 711	107 749 025
Income bearing investments in tangible assets	135	-	-
Long term financial investments	140	257 786 894	274 031 296
including :			
investments in subsidiaries	141	191 785 969	196 096 243
investments in associates	142	5 569 942	5 764 468
investments in other entities	143	574 206	960 487
loans provided to other companies for a period over 12 months	144	8 714 890	18 672 962
Deferred tax assets	145	22 749 047	6 290 780
Other non-current assets	150	-	303 834
Total section I	190	1 628 391 386	1 680 129 456
II. Current assets			
Inventories	210	52 406 756	60 308 703
including:			
raw materials and other inventories	211	265 696	1 010 921
livestock	212	47	38
work in progress	213	20 805 747	40 688 795
finished goods and goods for resale	214	17 353 530	17 226 336
goods dispatched	215	12 911 942	583 334
expenses related to future periods	216	1 069 794	799 279
Value added tax on purchased goods	220	25 623 742	22 971 816
Accounts receivable (payments expected beyond 12 months of the reporting date)	230	90 452 038	106 796 580
including:			
buyers and customers	231	10 307 684	12 404 499
promissory notes receivable	232	1 716 358	1 060 362
advances paid	234	-	163 920
other debtors	235	78 427 996	93 167 799
Accounts receivable (payments expected within 12 months of the reporting date)	240	300 060 343	341 870 136
including:			
buyers and customers	241	104 250 434	123 185 806

ASSETS	Line code	At beginning of reporting year	At end of reporting year
1	2	3	4
promissory notes receivable	242	1 280 438	1 590 543
outstanding shareholders' contributions to charter capital	244	-	-
advances paid	245	2 142 540	2 758 256
other debtors	246	192 386 931	214 335 531
Short-term investments	250	33 551 664	35 520 443
loans provided to other companies for a period within 12 months	251	14 811 907	12 613 038
Monetary assets	260	62 805 752	47 965 712
including:			
cash	261	1 402	2 229
settlement accounts	262	5 828 279	7 425 576
foreign currency accounts	263	17 365 686	9 822 453
other monetary assets	264	39 610 385	30 715 454
Other current assets	270	1 207	1 491
Total section II	290	564 901 502	615 434 881
TOTAL SECTIONS I and II	300	2 193 292 888	2 295 564 337

EQUITY AND LIABILITIES	Line code	At beginning of reporting year	At end of reporting year
1	2	3	4
III. Equity and reserves			
Charter capital	410	118 367 564	118 367 564
Treasury shares	411	-	-
Additional capital	420	1 253 543 558	1 252 976 071
Legal reserve	430	8 636 001	8 636 001
including:			
reserves and provisions formed in accordance with legislation	431	8 636 001	8 636 001
Retained earnings (loss)	470	193 510 762	327 231 444
Social government fund	480	-	-
Total section III	490	1 574 057 885	1 707 211 080
IV. Non-current liabilities			
Borrowings	510	236 716 917	253 502 573
bank borrowings due for repayment beyond 12 months	511	231 758 001	248 529 156
other borrowings due for repayment beyond 12 months	512	4 958 916	4 973 417
Deferred tax liabilities	515	36 977 118	57 384 658
Other non-current liabilities	520	9 109 437	1 709 826
including:			
promissory notes payable	522	8 763 452	806 895
Total section IV	590	282 803 472	312 597 057
V. Current liabilities			
Borrowings	610	154 974 512	128 794 382
bank borrowings due for repayment within 12 months	611	61 020 109	28 724 071
other borrowings due for repayment within 12 months	612	-	-
current portion of long-term borrowings	613	93 954 403	100 070 311

EQUITY AND LIABILITIES	Line code	At beginning of reporting year	At end of reporting year
1	2	3	4
Accounts payable	620	181 377 698	146 932 274
including:			
suppliers and contractors	621	100 320 626	71 787 145
salaries payable	622	5 132	30 188
payable to state non-budget funds	623	1 664	7 175
taxes payable	624	12 833 111	19 143 325
other creditors, including:	625	68 217 165	55 964 441
promissory notes payable	626	23 338 972	7 897 716
advances received	627	686 891	514 129
other creditors	628	44 191 302	47 552 596
Dividends payable	630	76 598	27 525
Income of future periods	640	2 723	2 019
Reserves for future expenses and payments	650	-	-
Other current liabilities	660	-	-
Total section V	690	336 431 531	275 756 200
TOTAL SECTIONS III,IV,V	700	2 193 292 888	2 295 564 337

REFERENCE TO ITEMS ACCOUNTED ON OFF-BALANCE SHEET ACCOUNTS

Line name	Line code	At beginning of reporting year	At end of reporting year
1	2	3	4
Rented fixed assets	910	12 684	28 880
thereof by leasing	911	-	-
Working assets and fixed assets accepted for custody	920	33 369	33 156
Goods on commission	930	-	-
Bad debts of insolvent debtors written off to losses	940	13 303 322	14 897 918
Security of liabilities and payments received	950	26 769 264	24 809 626
Security of liabilities and payments issued	960	146 896 644	110 496 056
Housing stock depreciation	970	15 151	11 964
Depreciation of auxiliary engineering facilities and other similar items	980	-	-
Intangible assets obtained for use	990	-	-
Transition period profit tax	998	8 373 448	4 227 498

Chief Executive Officer

Chief Accountant



A.B. Miller

E.A. Vasilieva

PROFIT AND LOSS ACCOUNT for 2003

thousands of RR

Parameter	For reporting	For the similar period
name	period	of the prior year
1	3	4
Income from and expenses on ordinary activities		
Sale of goods, products, work, services (less VAT, excise tax and other similar mandatory payments)	780 612 980	604 853 172
including:		
gas	623 528 273	493 555 529
leased assets	98 308 748	92 634 199
gas transportation services	30 928 321	16 966 691
oil and gas refinery products	22 559 938	-
gas condensate	4 453 232	-
gas storage services	7 890	382 130
other	826 578	1 314 623
Cost of goods, products, work, services sold	(254 986 797)	(214 878 406)
including:		
gas	(99 061 011)	(107 992 989)
leased assets	(92 642 792)	(86 278 865)
gas transportation services	(36 261 941)	(18 803 790)
oil and gas refinery products	(21 239 385)	-
gas condensate	(4 672 003)	-
gas storage services	(821)	(155 038)
other	(1 108 844)	(1 647 724)
Gross profit	525 626 183	389 974 766
Selling expenses	(309 923 956)	(268 254 824)
Administrative expenses	(8 147 344)	(12 676 399)
Profit (loss) from operations	207 554 883	109 043 543
Other income and expenses		
Interest income	2 495 106	2 231 670
Interest expenses	(26 071 052)	(26 191 409)
Income from investments in other companies	1 913 945	2 004 656
Other operating income	694 769 989	531 194 465
Other operating expenses	(705 203 294)	(544 170 717)
Non-operating income	99 059 748	63 614 634
Non-operating expenses	(76 232 292)	(60 782 312)
Extraordinary income	852	345
Extraordinary expenses	(86)	(2 418)
Profit (loss) before profit tax	198 287 799	76 942 457
Deferred tax assets	(16 458 267)	13 872 538
Deferred tax liabilities	(20 407 540)	(31 503 722)
Profit tax and other similar payments	(18 799 392)	(6 671 929)
Net profit (loss) of the reporting period	142 622 600	52 639 344

Parameter		For reporting period	For the similar period of the prior year
name	code	period	of the prior year
1	2	3	4
REFERENCE			
Permanent tax liabilities (assets)	200	3 914 401	(409 918)
Basic earnings (loss) per share	201	6.02	2.22
Diluted earnings (loss) per share	202	6.02	2.22

BREAKDOWN OF SPECIFIC INCOMES AND EXPENSES

thousands of RR

Parameter	code	For reporting period		For similar period of prior year	
		income	expense	income	expense
name	2	3	4	5	6
Fines and penalties recognized or in respect of which there are court (arbitration) judgements on their recovery	210	3 897 668	1 355	5 056 301	5 388
Profit (loss) of prior years	220	38 181 269	19 735 362	35 991 389	21 927 545
Compensation of damages caused by defaulted obligations or improperly fulfilled obligations	230	-	-	-	-
Exchange differences on foreign currency transactions	240	51 664 912	43 141 427	20 350 579	29 957 597
Revaluation reserves	250	X	4 751 688	X	5 800 547
Written off past due accounts receivable and accounts payable with expired limitation period	260	286 873	161 926	4 056	188 496

Chief Executive Officer

A.B. Miller

Chief Accountant

E.A. Vasilieva



FLOW OF EQUITY AND FUNDS for 2003

I. Changes in equity

thousands of RR

	Parameter		Charter capital	Additional capital	Legal reserve	Retained profit (loss)	Total
	name	code					
	1	2	3	4	5	6	7
Balance as of 31 December of the year preceding the prior year		70	118 367 564	1 253 876 000	5 039 613	182 067 010	1 559 350 187
2002 (prior year)							
Changes in the accounting policies		71	X	(143)	X	143	-
Revaluation of fixed assets		72	X	-	X	-	-
Balance as of 1 January of the prior year		80	118 367 564	1 253 875 857	5 039 613	182 067 153	1 559 350 187
Exchange differences		81	X	-	X	X	-
Net profit		82	X	X	X	53 510 640	53 510 640
Dividends		83	X	X	X	(10 416 346)	(10 416 346)
Allocations to the legal reserve		84	X	X	3 596 388	(3 596 388)	-
Increase of equity due to:		85	-	-	-	332 299	332 299
additional share issue		86	-	X	X	X	-
increased face value of shares		87	-	X	X	X	-
reorganization of the legal entity		88	-	X	X	-	-
other transactions		89	-	-	-	332 299	332 299
Reduction of equity due to:		90	-	(332 299)	-	-	(332 299)
reduced face value of shares		91	-	X	X	X	-
reduced number of shares		92	-	X	X	X	-
reorganization of the legal entity		93	-	X	X	-	-
other transactions		94	-	(332 299)	-	-	(332 299)
Balance as of 31 December of the prior year		95	118 367 564	1 253 543 558	8 636 001	221 897 358	1 602 444 481
2003 (reporting year)							
Changes in the accounting policies		96	X	X	X	(28 386 596)	(28 386 596)
Revaluation of fixed assets		97	X	-	X	-	-
Balance as of 1 January of the reporting year		100	118 367 564	1 253 543 558	8 636 001	193 510 762	1 574 057 885
Exchange differences		101	X	-	X	X	-
Net profit		102	X	X	X	142 622 600	142 622 600
Dividends		103	X	X	X	(9 469 405)	(9 469 405)
Allocations to legal reserve		110	X	X	-	-	-
Increase of equity due to:		120	-	-	-	567 487	567 487
additional share issue		121	-	X	X	X	-
increased face value of shares		122	-	X	X	X	-
reorganization of the legal entity		123	-	X	X	-	-
other transactions		125	-	-	-	567 487	567 487
Reduction of equity due to:		130	-	(567 487)	-	-	(567 487)
reduced nominal value of shares		131	-	X	X	X	-
reduced number of shares		132	-	X	X	X	-
reorganization of the legal entity		133	-	X	X	-	-

	Parameter		Charter capital	Additional capital	Legal reserve	Retained profit (loss)	Total
	name	code					
	1	2	3	4	5	6	7
other transactions		135	-	(567 487)	-	-	(567 487)
Balance as of 31 December of the reporting year		140	118 367 564	1 252 976 071	8 636 001	327 231 444	1 707 211 080

II. Reserves

thousands of RR

	Parameter		Balance	Addition	Used	Balance
	name	code				
	1	2	3	4	5	6
Legal reserves formed in accordance with legislation:						
Reserve funds		151				
prior year		152	5 039 613	3 596 388	-	8 636 001
reporting year		153	8 636 001	-	-	8 636 001
Other reserves		154				
prior year		155	-	-	-	-
reporting year		156	-	-	-	-
Legal reserves formed in accordance with foundation documents:						
Reserve funds		157				
prior year		158	-	-	-	-
reporting year		159	-	-	-	-
Other reserves		160				
prior year		161	-	-	-	-
reporting year		162	-	-	-	-
Provisions						
Provision for impairment of receivables						
prior year		163				
prior year		164	74 778 685	5 800 547	(2 237 762)	78 341 470
reporting year		165	78 341 470	-	(4 642 341)	73 699 129
Provision for impairment of investments						
prior year		166				
prior year		167	-	-	-	-
reporting year		168	14 945 766	4 604 976	-	19 550 742
Provision for impairment of inventories						
prior year		169				
prior year		170	-	-	-	-
reporting year		171	-	-	-	-
Other provisions						
prior year		172				
prior year		173	-	-	-	-
reporting year		174	-	-	-	-

Parameter		Balance	Addition	Used	Balance
name	code				
1	2	3	4	5	6
Provisions for liabilities and charges:					
for vacation bonus expenses	175				
prior year	176	-	-	-	-
reporting year	177	-	-	-	-
for annual work record bonus expenses	178				
prior year	179	-	-	-	-
reporting year	180	-	-	-	-
for annual appreciation bonus expenses	181				
prior year	182	-	-	-	-
reporting year	183	-	-	-	-
for repair works to be incurred	184				
prior year	185	-	-	-	-
reporting year	186	-	-	-	-
for warranty and service expenses	187				
prior year	188	-	-	-	-
reporting year	189	-	-	-	-
for contingent liabilities	190				
prior year	191	-	-	-	-
reporting year	192	-	-	-	-
Other provisions	193				
prior year	194	-	-	-	-
reporting year	195	-	-	-	-

REFERENCE

Parameter		At beginning		At end	
name	code	of reporting year		of reporting year	
1	2	3	4	5	6
1) Net assets	200	1 574 060 608		1 707 213 099	
		from the budget		from non-budget funds	
		for reporting year	for prior year	for reporting year	for prior year
		3	4	5	6
2) Received for:					
expenses on ordinary activities – total	210	-	-	-	-
including:					
capital investments in non-current assets	220	-	-	-	-
including:					

Chief Executive Officer

A.B. Miller

Chief Accountant

E.A. Vasilieva



CASH FLOW STATEMENT for 2003

thousands of RR

Parameter		For reporting	For similar period
name	code	year	of prior year
1	2	3	4
Cash at beginning of reporting year	100	59 232 576	47 189 367
Cash flows from operating activities			
Total cash received, including from	110	1 630 247 387	1 239 941 080
sale of goods, products, works and services	111	890 602 647	705 794 532
sale of other assets	112	660 221 778	494 201 886
advances received from buyers (customers)	113	62 186 071	13 857 346
budget allocations and other special purpose financing	114	255	572
free of charge	115	-	-
other income	116	17 236 636	26 086 744
Total cash used, including:	120	(1 451 020 340)	(1 141 441 626)
purchased goods, works, services and other current assets	150	(532 272 172)	(373 187 433)
wages and salaries	160	(2 339 805)	(1 319 091)
dividends and interest	170	(10 597 284)	(9 905 574)
settlement of taxes and duties	180	(180 716 425)	(136 161 893)
payments to non-budget funds	190	(374 057)	(289 316)
advances paid	191	(3 775 215)	(7 836 035)
other expenses	192	(720 945 382)	(612 742 284)
Net cash received from operating activity	199	179 227 047	98 499 454
Cash flows from investment activities			
Total cash received, including from	200	31 280 048	36 893 121
Sale of fixed assets and other non-current assets	210	921	34 787
Sale of securities and other financial investments	220	709 220	808 298
Dividends received	230	4 840 148	3 509 813
Interest income	240	304 930	853 701
Repayment of loans provided to other companies	250	5 066 259	13 856 654
Budget allocations and other special purpose financing	255	-	-
Other receipts	260	20 358 570	17 829 868
Total cash used, including	270	(230 026 653)	(167 581 733)
Acquisition of subsidiaries	280	-	-
Acquisition of fixed assets,			
income bearing investments in tangible and intangible assets	290	(1 045 707)	(82 053)
Acquisition of securities and other financial investments	300	(23 411 003)	(27 863 734)
Loans provided to other companies	310	(15 135 694)	(6 816 626)
Financing of joint construction	320	(27 645)	(61 906)
Other payments	330	(190 406 604)	(132 757 414)
Net cash from investment activities	340	(198 746 605)	(130 688 612)

Parameter		For reporting	For similar period
name	code	year	of prior year
1	2	3	4
Cash flows from financial activities			
Total cash received, including from	350	190 903 224	246 581 542
Proceeds from issue of shares and other equity securities	351	-	-
Proceeds from loans provided to other companies	352	190 903 224	246 578 117
Other receipts	353	-	3 425
Total cash used, including	360	(182 650 994)	(201 094 946)
Repayment of loans, credits (net of interest)	361	(182 650 994)	(201 094 946)
Settlement of financial lease	362	-	-
Purchased goods, works, services	363	-	-
Other payments	364	-	-
Net cash from financial activities	370	8 252 230	45 486 596
Net increase (decrease) of cash and cash equivalents	380	(11 267 328)	13 297 438
Cash at the end of reporting year			
	400	47 965 248	60 486 805
Effect of exchange differences	401	(2 065 768)	5 199 414

Chief Executive Officer


 A.B. Miller

Chief Accountant

E.A. Vasilieva

SUPPLEMENT TO THE BALANCE SHEET for 2003

Intangible assets

thousands of RR

name	Parameter		At beginning of reporting year	Additions	Disposals	At end of reporting year
	code					
1	2		3	4	5	6
Intellectual property (exclusive rights to intellectual property)	010		474	-	-	474
including rights of:						
industrial design, useful model patent holders	011		-	-	-	-
owners of software, databases	012		-	-	-	-
owners of IC pattern	013		-	-	-	-
owners of trademarks and service marks, name of goods' origin	014		474	-	-	474
patent holders to plants	015		-	-	-	-
Organisational expenses	020		-	-	-	-
Good will	030		-	-	-	-
Other	040		-	-	-	-

thousands of RR

name	Parameter		At beginning of reporting year	At end of reporting year
	code			
1	2		3	4
Total amortization of intangible assets, including	050		-	19

Fixed assets

thousands of RR

Parameter		At beginning	Additions	Disposals	At end
name	code	of reporting year			of reporting year
1	2	3	4	5	6
Buildings	060	71 419 403	12 979 997	(382 687)	84 016 713
Structures and transfer mechanisms	061	2 536 266 533	85 056 162	(707 236)	2 620 615 459
Machinery and equipment	062	339 149 660	32 261 840	(3 482 309)	367 929 191
Means of transportation	063	608 848	81 619	(6 031)	684 436
Production and work appliances	064	920 363	249 181	(1 929)	1 167 615
Working livestock	065	180	1 947	-	2 127
Productive livestock	066	-	-	-	-
Perennial plants	067	11 924	-	(299)	11 625
Other types of fixed assets	068	307 807	98 419	(119 046)	287 180
Plots of lands and natural resources	069	1 235	-	-	1 235
Capital investments in land rehabilitation	070	-	-	-	-
Total	071	2 948 685 953	130 729 165	(4 699 537)	3 074 715 581

thousands of RR

Parameter		At beginning	At end
name	code	of reporting year	of reporting year
1	2	3	4
Total depreciation of fixed assets	140	1 694 469 693	1 782 961 515
including:			
buildings and structure	141	1 421 536 288	1 500 633 906
machinery, equipment, means of transportation	142	272 567 584	281 865 703
other	143	365 821	461 906
Total fixed assets leased out	150	2 940 522 165	3 062 479 091
including:			
buildings	151	65 962 018	77 073 331
structures	152	2 535 829 455	2 617 991 177
machinery and equipment	153	338 266 929	366 820 636
other	154	463 763	593 947
Suspended fixed assets	160	30 139	2 175 976
Total fixed assets leased in	161	-	-
including:			
Fixed assets put into operation			
and being in the process of state registration	162	55 576 373	74 029 225

REFERENCE	code	At beginning of reporting year	At beginning of prior year
	2	3	4
Result of fixed assets revaluation:			
historical (replacement) cost	171	-	-
depreciation	172	-	-
	code	For the reporting year	For similar period of prior year
	2	3	4
Changes in the value of fixed assets as a result of fitting-out, rigging up, reconstruction, partial liquidation			
	180	4 409 412	4 341 503

Income bearing investments in tangible assets

thousands of RR

name	Parameter	At beginning of reporting year	Additions	Disposals	At end of reporting year
	code				
1	2	3	4	5	6
Assets to be leased out	190	-	-	-	-
Assets for hiring	191	-	-	-	-
Other	192	-	-	-	-
TOTAL	193	-	-	-	-

	code	At beginning of reporting year	At end of reporting year
1	2	3	4
Depreciation of income bearing investments in tangible assets			
	200	-	-

Research and development costs

thousands of RR

	Types of works		At beginning of reporting year	Additions	Disposals	At end of reporting year
	name	code				
	1	2				
Total		310	-	-	-	-

including:

REFERENCE	code	At beginning of reporting year	At end of reporting year
	2	3	4
	Total research and development costs in progress	320	-
REFERENCE	code	For the reporting period	For similar period of prior year
	2	3	4
	Total unsuccessful research and development costs posted to non-operating expenses	321	170 287

Natural resources development costs

thousands of RR

	Parameter		Balance at beginning of reporting year	Additions	Written off	Balance at end of reporting year
	name	code				
	1	2				
Total natural resources development costs		410	-	-	-	-

including:

REFERENCE	code	At beginning of reporting year	At end of reporting year
	2	3	4
	Costs of natural resources development in progress	412	-
Costs of unsuccessful natural resources development charged to non-operating expenses	413	-	-

Financial investments

thousands of RR

name	Parameter code	Long-term		Short-term	
		At beginning of reporting year	At end of reporting year	At beginning of reporting year	At end of reporting year
1	2	3	4	5	6
Total investments in share capital of other companies, including	510	203 956 674	209 615 526	-	-
subsidiary and associated companies	511	197 592 658	202 100 657	-	-
State and municipal securities	515	187 588	86 996	527 108	610 475
Total securities of other companies, including	520	9 181 148	8 633 410	25 294 673	31 025 617
debt securities (bonds, promissory notes)	521	9 100 148	8 632 410	25 004 673	30 945 617
Loans provided	525	8 714 890	18 672 962	14 965 319	14 585 961
Deposits	530	11 292 824	10 824 914	-	271 032
Other	535	30 861 124	33 372 612	1 302 976	1 402 976
Total	540	264 194 248	281 206 420	42 090 076	47 896 061
Of the total financial investments					
carried at market value :					
Total investments in share capital of other companies, including	550	1 343 946	1 388 073	-	-
subsidiary and associated companies	551	1 343 946	1 388 073	-	-
State and municipal securities	555	906	909	-	-
Total securities of other companies, including	560	-	-	-	-
debt securities (bonds, promissory notes)	561	-	-	-	-
Other	565	-	-	-	-
Total	570	1 344 852	1 388 982	-	-
Reference					
Changes in financial investments carried at market value due to valuation adjustments	580	787 241	44 130	-	-
For debt securities - the difference between the historic cost and face value charged to financial result of the reporting year	590	-	-	-	-

Accounts receivable and accounts payable

thousands of RR

Parameter		Balance at beginning	Balance at end
name	code	of reporting year	of reporting year
1	2	3	4
Accounts receivable:			
total short-term	600	383 106 042	422 913 864
including:			
receivables from buyers and customers	601	174 535 634	192 370 448
promissory notes receivable	602	1 280 438	1 590 543
advances issued	603	2 142 540	2 758 256
other	604	205 147 430	226 194 617
total long-term	610	93 157 982	106 796 580
including:			
receivables from buyers and customers	611	10 307 684	12 404 499
promissory notes receivable	612	1 716 358	1 060 362
advances issued	613	-	163 920
other	614	81 133 940	93 167 799
Total	620	476 264 024	529 710 444
Accounts payable			
total short-term	630	343 762 383	283 071 255
including:			
settlements with suppliers and contractors	631	100 320 626	71 787 145
advances received	632	686 891	514 129
taxes payable	633	12 834 775	19 150 500
promissory notes payable	634	23 338 972	7 897 716
credits	635	150 912 872	128 653 416
borrowings	636	4 061 640	140 966
other	637	51 606 607	54 927 383
total long-term	640	245 826 354	255 212 399
including:			
credits	641	231 758 001	248 529 156
borrowings	642	4 958 916	4 973 417
other	643	9 109 437	1 709 826
Total	650	589 588 737	538 283 654

Ordinary operating expenses (by types of expenses)

thousands of RR

Parameter		Balance at beginning	Balance at end
name	code	of reporting year	of reporting year
1	2	3	4
Materials	710	396 634 769	305 160 149
Wages and salaries	720	2 163 000	1 399 287
Social expenses	730	338 626	278 644
Depreciation	740	91 674 964	86 476 084
Other expenses	750	5 681 079	11 068 217
Total expenses	760	496 492 438	404 382 381
Changes in balances (increase [+], decrease [-]):			
work in progress	765	19 883 048	17 816 148
future period expenses	766	(270 515)	915 013
provisions for liabilities and charges	767	-	-

COLLATERAL

thousands of RR

Parameter		Balance at beginning	Balance at end
name	code	of reporting year	of reporting year
1	2	3	4
Received - total	810	26 769 264	24 809 626
including:			
promissory notes	811	-	-
including past due notes	812	-	-
Pledged assets	820	23 240 264	21 280 626
including:			
fixed asset items	821	-	-
securities and other financial investments	822	23 240 264	21 280 626
other	823	-	-
Issued - total	830	146 896 644	110 496 056
including:			
promissory notes	831	-	-
including past due notes	832	-	-
Pledged assets, including:	840	198 012	182 539
fixed asset items	841	-	-
securities and other financial investments	842	198 012	182 539
other	843	-	-

Government grants

thousands of RR

Parameter		For reporting	For similar period
name	code	year	of prior year
1	2	3	4
Total budget funds received	910	-	-

including:

		At beginning	Received	Repaid	At end
		of reporting year	for reporting year	for reporting year	of reporting year
Total credits from the budget	920	-	-	-	-

including:

Chief Executive Officer

A.B. Miller

Chief Accountant

E.A. Vasilieva



**ОАО «GAZPROM»
EXPLANATORY NOTES TO THE 2003 ACCOUNTING REPORTS
(in thousands of Roubles)**

1. NATURE OF OPERATIONS

The principal activity of ОАО «Gazprom» («the Company») is the sale of gas. The Company is also involved in other types of activities which include leasing of assets, gas transportation and storage services, sale of gas condensate and refined products.

The Company is registered at the following address: 117997, Moscow, Nametkina street, 16 and has branches in the following towns: Moscow, Tyumen, Kiev, Salekhard, Minsk, Teheran, Peking and Ashkhabad and in the Moscow region.

As of 31 December 2003 and 2002 the Company employed 5,194 and 4,544 people, respectively.

Members of the Board of Directors of ОАО «Gazprom» include:

Medvedev, Dmitri Anatolievich – Chairman of the Board of Directors

Ananenko, Alexander Georgievich	Miller, Alexei Borisovich
Bergmann, Burckhard	Sereda, Mikhail Leonidovich
Gazizullin, Farit Rafikovich	Fedorov, Boris Grigorievich
Gref, German Oskarovich	Khristenko, Victor Borisovich
Levitskaya, Aleksandra Yurievna	Yusufov, Igor Khanukovich

Members of the Management Committee of ОАО «Gazprom» include:

Miller, Alexei Borisovich – Chairman of the Management Committee

Akselrod, Mikhail Arkadievich	Medvedev, Alexander Ivanovich
Ananenko, Alexander Georgievich	Pavlova, Olga Petrovna (from 5 January 2004)
Budzulyak, Bogdan Vladimirovich	Podyuk, Vasili Grigorievich
Vasilieva, Elena Alexandrovna	Rusakova, Vlada Vilorikovna
Golubev, Valeri Alexandrovich	Ryazanov, Alexander Nikolaevich
Guslisty, Nikolay Nikiforovich	Seleznev, Kirill Gennadievich
Ilyushin, Viktor Vasilievich	Ushakov, Sergey Konstantinovich
Komarov, Yuri Alexandrovich	Chuichenko, Konstantin Anatolievich
Kruglov, Andrei Vyacheslavovich	Yurlov, Boris Dmitrievich

Members of the Internal Control Commission of ОАО «Gazprom» include:

Arkhipov, Dmitri Alexandrovich – Chairman of the Internal Audit Commission

Bikulov, Vadim Kasymovich	Koloskov, Dmitri Valentinovich
Volkov, Nikolai Grigorievich	Kosterin, Maxim Nikolaevich
Gulyukina, Svetlana Alekseevna	Lysak, Olga Alexandrovna
Ishutin, Rafael Vladimirovich	Tanuliak, Natalya Ilyinichna

**ОАО «GAZPROM»
EXPLANATORY NOTES TO THE 2003 ACCOUNTING REPORTS
(in thousands of Roubles)**

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Accounting principles

The accounting reports of the Company have been prepared in accordance with the accounting and reporting rules effective in the Russian Federation, in particular, the Federal law «On Accounting» № 129-FZ dated 21 November 1996 and the Regulation of Accounting and Reporting in the Russian Federation approved by the Russian Federation Ministry of Finance № 34n dated 29 July 1998 as well as other normative acts forming the accounting and reporting system of the Russian Federation.

Assets are accounted for at actual purchase costs, except for investments for which fair value is determinable and fixed assets that are revalued on a regular basis.

Assets and liabilities denominated in foreign currency

Transactions in foreign currencies have been accounted for based on the Central Bank of the Russian Federation official exchange rate of the rouble prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currency have been recognized based on the official exchange rate of RR 29.4545 and RR 31.7844 per USD 1, RR 36.8240 and RR 33.1098 per Euro 1 that were effective as of 31 December 2003 and 2002, respectively.

Exchange differences that arose in the reporting year from either transactions involving assets and liabilities denominated in foreign currency or as a result of the revaluation of such assets and liabilities as of the reporting date, have been recorded as non-operating income and expenses.

Current and non-current assets and liabilities

On the balance sheet accounts receivable and accounts payable, including loans and borrowings, are treated as current if the term of their circulation (maturity) does not exceed 12 months after the reporting date. All other assets and liabilities are treated as non-current. Investments are included in current assets if they are anticipated to be held for less than 12 months after the reporting date. Other investments are included in non-current assets.

Fixed assets

Fixed assets include assets which conform to the requirements of the Russian accounting rule «Accounting for Fixed Assets» (PBU 6/01) approved by order of the RF Ministry of Finance dated 30 March 2001, №.26n. Fixed assets include real property assets that have been put into operation but are still in the process of state registration as of the date of the present accounting reports. Although this was a departure from accounting rules effective up to 1 January 2004, Company management believe that such accounting treatment ensures a more accurate reflection of the asset position of the Company given that these assets are actually used in the operations of the Company and generate economic benefits.

Fixed assets are recorded at historical or revalued cost net of depreciation accumulated for the period of their use.

Fixed assets acquired and constructed before 1 January 2002 are depreciated based on uniform depreciation rates approved by Decree of the USSR Council of Ministers dated 22.10.1990, № 1072 «On Uniform Depreciation Rates of Fixed Asset of the USSR National Economy». Fixed assets acquired after 1 January 2002 are depreciated at rates based on estimated useful lives of these

ОАО «GAZPROM»
EXPLANATORY NOTES TO THE 2003 ACCOUNTING REPORTS
(in thousands of Roubles)

assets. Classification of fixed assets by depreciation groups approved by RF Government Resolution № 1 dated 1 January 2002, is used as one of the sources of information about useful lives of fixed assets. The Company has adopted the following useful lives for fixed asset groups:

	Useful life of assets recorded on the balance sheet (number of years)	
	before 1 January 2002	after 1 January 2002
Pipelines	33	25
Wells	12 – 15	12 – 15
Machinery and equipment	10 – 18	5 – 25
Buildings	20 – 50	15 – 50

Fixed assets are depreciated for accounting purposes on a straight-line basis.

Construction in progress

Construction in progress includes, but is not limited to, completed fixed assets which have been put into operation but have not been properly registered in the State Register. Such assets are depreciated similarly to fixed assets and in the accounting reports they are recorded at historical cost net of accumulated depreciation.

Investments

Investments are recorded at their historical cost, except for investments for which market value is determinable and investments for which impairment provision is created.

Investments for which market value is determinable are restated to their market value as of the end of the reporting period. The change in the investment value is recorded in other operating income and expenses.

Impairment provision is recorded as of the end of the reporting period for those investments for which no current market value is determinable and for which there are indications as of the reporting date that their recoverable value is less than carrying value and the decline in value is significant and non-temporary. These provisions are based on the judgment of the Company management as to the extent to which the carrying value of the investments are recoverable. The investment impairment provision has been created in the amount by which the carrying value of investments exceeds their estimated recoverable value. Impairment provisions are charged against other operating expenses.

Securities which do not have market value (except for those individually identifiable) are recorded in the statutory accounting reports upon disposal under the FIFO method.

Other investments (including individually identifiable securities such as promissory notes) without market value are recorded upon disposal at the historical cost of each unit.

Income and expenses associated with investments are recorded within operating income and expenses.

**ОАО «GAZPROM»
EXPLANATORY NOTES TO THE 2003 ACCOUNTING REPORTS
(in thousands of Roubles)**

Inventory and costs

Natural gas pumped into pipelines and underground storage is the main type of inventory. Disposals of the gas are recorded using the average cost method.

Costs of natural gas transportation on the territory of Russia and abroad are allocated in proportion to the volumes of gas sold and the volumes of gas pumped into underground storage as of the end of the reporting period.

General administration costs (overheads)

General administration costs are posted to the financial result of the reporting period in full on a monthly basis.

Trade accounts receivable

Trade accounts receivable are recorded based on prices contracted between the Company and buyers (customers) taking account of all discounts (markups) provided by the Company. Bad debts are written off when recognized as such.

Unsecured past due trade receivables are stated net of doubtful debt provisions. These provisions are based on the judgment of the Company management as to the extent to which the debts collectibility is doubtful. Doubtful debt provisions are charged against other operating expenses in the Profit and Loss Account.

Credits and loans received

Long-term liabilities attributable to borrowings (credits, loans) are not transferred to short-term borrowings in the accounting records until they become due for repayment.

Discount on promissory notes issued by the Company is included within operating expenses.

Additional costs attributable to the receipt of credits and loans are included in other operating expenses in the reporting period in which they are incurred.

Deferred taxes

Following the enactment of RAR 18/02 «Accounting for Profit Tax» (adopted by order of the Ministry of Finance of the Russian Federation № 114n dated 19 November 2002) the Company started to recognize deferred profit tax (deferred tax assets and deferred tax liabilities) i.e. amounts which can impact the current profit tax in future reporting periods.

To reflect changes in the accounting policies related to profit tax calculations and to ensure comparability of the accounting reports balances, the 2003 opening balances have been adjusted for deferred tax assets and liabilities as of 31 December 2002 (lines 145 and 515, respectively), corresponding adjustments have been made to the retained profit (uncovered loss) balance (balance sheet line 470); while comparatives for 2002 in the 2003 Profit and Loss Account have been adjusted for deferred tax assets and liabilities as well as for permanent tax liabilities which had impacted the current profit tax for 2002.

**ОАО «GAZPROM»
EXPLANATORY NOTES TO THE 2003 ACCOUNTING REPORTS
(in thousands of Roubles)**

Revenue recognition

Revenues from sales are recognized at the moment when goods are shipped (or services rendered) and corresponding settlement documents submitted to customers. Revenues are presented net of value added tax, excise tax, customs duties, and other similar charges.

Gas sales to the Far Abroad are made under the terms of an agent agreement. In the books of the Company, acting as a consignor, they are recognized upon receipt of a corresponding notice from the agent (ООО «Gazexport») that gas has been delivered to the customer. Prior to 1 January 2003 gas shipments to Far Abroad were recognized with a one month delay, as the commissioner notified the Company about gas shipments in the month following the month of actual shipments. Until receipt of the agent's notification shipped gas was recorded in line 215 «Goods shipped» at the actual cost of sales. Since 1 January 2003 following the introduction of SAP R/3 information system by the Company and as a result of improved document-flow, gas sales to Far Abroad are recognized when actually shipped.

3. CHANGES IN THE ACCOUNTING POLICIES

Changes in the accounting policies

In the reporting year the Company's accounting policies have been adjusted in line with requirements of new accounting regulations introduced in 2003.

In the context of the above changes and following recommended new models of the statutory accounting reports and procedures of preparation and submission of the statutory accounting reports adopted by the Order of the Ministry of Finance of the Russian Federation № 67n dated 22 July 2003, the Company has changed the presentation of the 2003 statutory accounting reports as compared with the 2002 statutory accounting reports. The rules of presentation of individual elements in statutory accounting reports have not practically changed except for those in Statement of Changes in Shareholders' Equity and the Statement of Cash Flow. The Statement of Changes in Shareholders' Equity includes figures reflecting changes in elements of the Company's capital in the inter-reporting period between the previous and the current reporting years due to changes in the Company's accounting policies. The breakdown of information in the Statement of Cash Flow by operating, investment and financing activity is based on the interpretation of investment and financial activities, which is changed in 2003 compared to 2002. As a result the breakdown by activity (categories) of certain transactions related to cash inflows and outflows in 2002 as presented in the 2003 accounting reports is different from its presentation in the 2002 statutory accounting reports.

Comparative amounts

To ensure comparability the 2002 balances in the 2003 accounting reports have been adjusted for the introduced changes.

Comparative amounts as of 1 January 2003

The 2003 opening balances have been formed by adjusting the 2002 closing balances for the changes in the accounting policies related to investments and deferred taxes.

ОАО «GAZPROM»
EXPLANATORY NOTES TO THE 2003 ACCOUNTING REPORTS
(in thousands of Roubles)

Line code	Article	31 December 2002	Change	1 January 2003
140	Long-term investments	252,114,183	5,672,711	257,786,894
145	Deferred tax assets	-	22,749,047	22,749,047
250	Short-term investments	42,090,076	(8,538,412)	33,551,664
260	Monetary assets	74,098,576	(11,292,824)	62,805,752
300	Balance	2,184,702,366	8,590,522	2,193,292,888
470	Retained earnings	221,897,358	(28,386,596)	193,510,762
515	Deferred tax liabilities	-	36,977,118	36,977,118
700	Balance	2,184,702,366	8,590,522	2,193,292,888

Comparative amounts for 2002

Comparative amounts for 2002 in the 2003 Profit and Loss Account have been adjusted for the following changes:

- changes in the 2003 accounting policies and reporting forms of the Company following enactment of new regulatory accounting documents;
- changes in the procedure for recording sale of gas to Far Abroad via the agent.

Line code	Article	2002 accounting reports	Change	2003 accounting reports
10	Sales of products, goods, works and services	602,055,732	2,797,440	604,853,172
20	Cost of sold products, goods, works and services	(215,202,470)	(324,064)	(214,878,406)
30	Commercial expenses	(272,267,204)	4,012,380	(268,254,824)
60	Interest receivable	2,649,424	(417,754)	2,231,670
70	Interest payable	(26,191,431)	22	(26,191,409)
100	Other operating expenses	(543,888,679)	(282,038)	(544,170,717)
120	Non-operating income	32,491,457	31,123,177	63,614,634
130	Non-operating expenses	(39,984,909)	(20,797,403)	(60,782,312)
141	Deferred tax assets	-	13,872,538	13,872,538
142	Deferred tax liabilities	-	(31,503,722)	(31,503,722)

Changes in the 2004 accounting policies

There were no changes made in the 2004 accounting policies of the Company, which can materially effect 2004 accounting reports.

ОАО «GAZPROM»
EXPLANATORY NOTES TO THE 2003 ACCOUNTING REPORTS
(in thousands of Roubles)

4. SEGMENT INFORMATION

The principal activity of ОАО «Gazprom» is the export sale of gas which accounted for 80 % and 82 % of revenue from sales of products (goods, work, services) in the years ended 31 December 2003 and 2002, respectively. The Company is also involved in other types of activities which do not form separate segments and are carried out mainly on the territory of the Russian Federation. These activities include:

- lease of assets;
- gas transportation and gas storage services;
- sale of gas condensate and refined products.

The assets are leased out mainly to subsidiaries. Leasing of assets to subsidiaries provides control over the operation of the unified gas supply system and is not pursued as a source of profit.

Gas transportation and storage services accounted for 4 % and 3 % of sales revenue in the years ended 31 December 2003 and 2002, respectively.

From 1 January 2003 the Company commenced sales of gas condensate and refined products on the domestic and export markets (see Note 13). Sales of gas condensate and refined products accounted for 3 % of sales revenue in the year ended 31 December 2003. Substantially all of the Company's assets are located in the Russian Federation. Gas sales to different geographical regions are disclosed in Note 13.

5. FIXED ASSETS

	Pipelines	Wells	Machinery & equipment	Buildings	Other assets	Total
At 31.12.2002						
Cost	2,116,305,437	305,995,103	339,179,012	71,419,260	115,787,141	2,948,685,953
Accumulated depreciation	(1,105,484,129)	(237,008,010)	(272,408,720)	(29,574,653)	(49,994,181)	(1,694,469,693)
Net book value	1,010,821,308	68,987,093	66,770,292	41,844,607	65,792,960	1,254,216,260
At 31.12.2003						
Cost	2,154,187,262	319,308,653	367,929,191	84,016,713	149,273,762	3,074,715,581
Accumulated depreciation	(1,166,877,715)	(247,934,154)	(281,614,942)	(31,626,514)	(54,908,190)	(1,782,961,515)
Net book value	987,309,547	71,374,499	86,314,249	52,390,199	94,365,572	1,291,754,066

Net book value of fixed assets leased to subsidiaries amounted to RR 1,282,160,333 and RR 1,247,344,247 as of 31 December 2003 and 2002, respectively.

**OAO «GAZPROM»
EXPLANATORY NOTES TO THE 2003 ACCOUNTING REPORTS
(in thousands of Roubles)**

6. CONSTRUCTION IN PROGRESS

	31 December	
	2003	2002
Construction in progress	107,258,260	93,210,380
Equipment for installation	490,765	428,331
Total	107,749,025	93,638,711

The balance of construction in progress as of 31 December 2003 and 2002 includes assets constructed and put into operation of RR 100,790,662 and RR 70,851,035 (net of accumulated depreciation), respectively, which are to be registered in the State Register. As of 31 December 2003 such assets primarily relate to the «Yamal-Europe» pipeline and the Zapolyarnoe and Yamburg gas condensate fields.

7. INVESTMENTS

Investments in other companies

Investments in other companies (line 143) of the balance sheet are presented net of provision for impairment of RR 6,554,382 and RR 5,789,810 as of 31 December 2003 and 2002, respectively. The impairment provision relates primarily to non-core investments.

Loans issued to companies for period over 12 months

Line 144 «Loans issued to companies for period over 12 months» of the balance sheet includes long-term loans provided mainly to subsidiary companies.

Other long-term financial investments

	31 December	
	2003	2002
Joint activity, including:	18,359,384	13,649,376
OAO «Gazcom» (development of a satellite communication system)	2,660,625	2,654,606
ZAO «Rosshelf», ZAO «Sevmorneftegaz» (development of oil and gas fields on the Barents Sea shelf)	6,310,804	2,551,609
Long-term promissory notes of subsidiaries, including:	8,251,614	8,451,614
OAO «Vostokgazprom»	7,259,919	7,259,919
Long-term deposits	10,824,914	11,292,824
Other, including:	15,101,224	17,748,073
South Pars (oil and gas field located in Iran)	15,013,229	17,211,748
Total	52,537,136	51,141,887

ОАО «GAZPROM»
EXPLANATORY NOTES TO THE 2003 ACCOUNTING REPORTS
(in thousands of Roubles)

The joint activity «Rosshelf» was established to develop Prirazlomnoye and Shtokmanovskoye fields in the Barents Sea. From inception ОАО «Gazprom» and its associated company ZAO «Rosshelf» had 99.1 % and 0.9 % direct interests in the joint activity, respectively. In October 2002 ОАО «Gazprom» and its subsidiary ZAO «Rosshelf» signed an amendment to the joint activity agreement that provided for an additional participant – ZAO «Sevmorneftegaz». ZAO «Sevmorneftegaz» is a company jointly controlled by ZAO «Rosshelf» and ОАО «NK Rosneft-Purneftegaz», a subsidiary of ОАО «NK Rosneft». Under the agreement, ZAO «Sevmorneftegaz» made a non-cash contribution assessed at RR 4,334,178 thus obtaining a 48.9 % interest in the joint activity. As a result of the transaction ОАО «Gazprom» had a 48.7 % direct interest in the joint activity. In July 2003 ОАО «NK Rosneft» signed an agreement under which its direct interest in the joint activity is 49.95 %. In accordance with the agreement the share of ОАО «Gazprom» decreased to 47.6 %.

Line 251 «Investments in associated companies for the period less than 12 months» of the balance sheet includes, but without limitation to, short-term loans mainly provided to subsidiary companies in the amount of RR 12,454,432 and RR 14,556,141 as of 31 December 2003 and 2002, respectively. Short-term loans are presented net of impairment provision of RR 1,972,923 and RR 153,412 as of 31 December 2003 and 2002, respectively.

Included within short-term investments are short-term promissory notes of RR 21,152,488 and RR 17,141,348 as of 31 December 2003 and 2002, respectively. Short-term promissory notes are presented net of an impairment provision of RR 10,402,695 and RR 8,385,000 as of 31 December 2003 and 2002, respectively. The impairment provision relates primarily to promissory notes of non-core subsidiary companies.

8. ACCOUNTS RECEIVABLE

Accounts receivable in line 231 «Accounts receivable from buyers and customers (payments expected beyond 12 months after the reporting date)» mainly include receivables for pipes supplied to «EuRoPol GAZ s.a.», an associated company (see Note 18), for the construction of the Polish section of the «Yamal-Europe» pipeline. The long-term portion of the «EuRoPol GAZ s.a.» debt was RR 8,370,855 and RR 10,307,684 as of 31 December 2003 and 2002, respectively. The short-term portion of the debt, included into line 241 «Accounts receivable from buyers and customers (payments expected within 12 months after the reporting date)», was RR 2,092,714 and RR 3,617,701 as of 31 December 2003 and 2002, respectively.

Starting from 1999 the Company concluded investment agreements with its subsidiaries on the construction and putting into operation of certain fixed asset items. The Company is the owner of all assets constructed under the investment agreements. Subsidiaries have no right to sell, pledge or otherwise dispose of the assets constructed.

The long-term portion of receivables from subsidiaries attributable to amounts received to finance the investment contracts is recorded in line 235 «Receivables from other debtors (payments expected beyond 12 months after the reporting date)» in the amount of RR 72,109,302 and RR 64,156,113 as of 31 December 2003 and 2002, respectively.

The current portion of receivables from subsidiaries attributable to amounts received to finance the investment contracts is recorded in line 246 «Receivables from other debtors (payments expected within 12 months after the reporting date)» in the amount of RR 124,871,888 and RR 104,725,201 as of 31 December 2003 and 2002, respectively.

In the first quarter of 2002 external supervision was introduced in respect of ОАО «AK «Sibur». On 10 September 2002 the creditors' meeting approved an amicable settlement agreement, which provided for the restructuring and rescheduling of ОАО «AK «Sibur»'s debts over a period of 9 years. Total long-term restructured debt of RR 12,599,048 and RR 11,220,853 due to the Company was

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recorded in: «Loans issued to companies for period over 12 months» (line 144), «Accounts receivable from buyers and customers (payments expected beyond 12 months after the reporting date)» (line 231) and «Receivables from other debtors (payments expected beyond 12 months after the reporting date)» (line 235) as of 31 December 2003 and 2002, respectively.

Accounts receivable in line 241 «Accounts receivable from buyers and customers (payments expected within 12 months after the reporting date)» are presented net of a doubtful debt provision of RR 61,840,043 and RR 62,875,027 as of 31 December 2003 and 2002, respectively. The bad debt provision recorded as of 31 December 2003 and 2002 is shown net of deferred excise tax in the amount of RR 7,344,599 and RR 7,410,173, respectively.

As of 31 December 2003 accounts receivable from the «Itera Group» and «Eural Trans Gas» for gas transportation and storage services amounted to RR 4,555,070 (RR 4,385,839 as of 31 December 2002) and RR 3,018,287 (nil as of 31 December 2002) (see Note 13), respectively.

Accounts receivable in line 246 «Other accounts receivable (payments expected within 12 months after the reporting date)» are presented net of a bad debt provision of RR 11,859,086 and RR 12,760,499 as of 31 December 2003 and 2002, respectively.

9. MONETARY ASSETS

Included within line 264 «Other monetary assets» are balances of cash totaling RR 30,348,803 and RR 34,001,262 as of 31 December 2003 and 2002, respectively, which are restricted as to withdrawal under the terms of certain borrowings (see Note 11).

10. SHAREHOLDERS' EQUITY

ОАО «Gazprom»'s charter capital amounts to RR 118,367,564 (23,673,513 thousand of fully paid shares with the nominal value of RR 5 each) and did not change in 2003.

In accordance with the decision of the General shareholders' meeting, based on the 2002 results of the Company, final dividends were accrued in the amount of RR 0.40 per common share.

The Charter of the Company provides for establishing a reserve fund in the amount not less than 5 % of the charter capital of the Company. The fund is formed by mandatory annual allocations of not less than 5 % of net profit. In 2003 no contribution was made to the reserve fund as the established limit of the fund was reached.

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11. BORROWINGS

Bank borrowings

Lender	Currency	Maturity	31 December	
			2003	2002
«Morgan Stanley Bank»	US Dollar	2013	53,199,122	-
«Gaz Capital S.A.»	Euro	2010	37,593,115	-
«Salomon Brothers AG»	US Dollar	2009	36,012,729	38,849,344
«Credit Lyonnais»	US Dollar	2005	32,555,506	54,325,111
«Dresdner Bank»	US Dollar	2005	20,070,147	39,219,402
«Sberbank RF»	RR	2004	19,850,492	40,246,867
«Bayerische Hypo-und Vereinsbank AG»	US Dollar	2008	18,326,359	23,556,552
«Deutsche Bank AG»	Euro	2006	17,748,095	3,190,492
«Intesa BCI»	US Dollar	2007	16,422,594	23,958,754
«Mannesmann (Deutsche Bank AG)»	Euro	2008	15,424,213	17,908,756
«Depfa Investment Bank»	US Dollar	2008	15,116,131	-
«Societe Generale»	US Dollar	2008	9,182,777	10,348,805
«ABN Amro»	US Dollar	2004	8,963,937	6,472,893
«Mitsuho Bank»	US Dollar	2010	8,815,632	9,598,145
German banking consortium	Euro	2007	7,889,855	8,872,621
«SACHE»	US Dollar	2012	7,503,353	7,435,781
«Credit Suisse First Boston»	US Dollar	2006	6,430,309	5,365,893
«WestLB AG»	US Dollar	2005	6,334,536	-
«Moskovsky Narodny Bank»	US Dollar	2006	5,214,937	7,506,607
«Vneshtorgbank»	US Dollar	2004	4,720,467	21,330,554
«Bayerische Hypo-und Vereinsbank AG»	Euro	2006	4,641,812	6,037,184
Other loans	Various	Various	25,166,454	58,447,111
Total loans, including			377,182,572	382,670,873
Due within one year			128,653,416	150,912,872

As of 31 December 2003 and 2002 long-term borrowings of RR 94,160,780 and RR 144,179,997, respectively, are secured by revenues from export sales of gas to Western Europe.

Some of the long-term borrowings are provided by banks in the form of direct repayment to suppliers of the debt for supplied equipment. This equipment is used for construction of production assets performed by subsidiaries under investment agreements.

As of 31 December 2003 long-term bank borrowings included loans received in 2003 from «Morgan Stanley» in connection with the issuance of USD 1,750 million of Loan Participation Notes due 2013 with an interest rate of 9.625 %, and from «Gaz Capital S.A.» in connection with issuance of EURO 1,000 million of Loan Participation Notes due 2010, with an interest rate of 7.8 %.

As of 31 December 2003 and 2002 long-term 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

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of Loan Participation Notes due 2009, with an interest rate of 10.5 %. The USD 700 million Loan Participation Notes have a put option due 21 October 2005.

In 2003 interest rates on the long-term foreign currency denominated bank borrowings ranged from 2.5 % to 13.3 %. Similar rates for 2002 ranged from 3.4 % to 13.3 %.

In 2003 interest rates on the short-term foreign currency denominated bank borrowings ranged from 4.3 % to 10.8 %, and on short-term RR denominated bank borrowings ranged from 8.8 % to 16.5 %. Similar rates for 2002 ranged from 5.0 % to 14.7 % on short-term foreign currency denominated bank borrowings and from 5.0 % to 20.1 % on short-term RR denominated bank borrowings.

Other borrowings

In 2002 OAO «Gazprom» placed RR 5 billion of bonds with a due date of 3 November 2005 with an interest rate of 15 % p.a. payable every 6 months. The total amount of the issue, excluding the discount related to future periods, is recorded in line 512 «Borrowings due for repayment beyond 12 months after the reporting date».

In April 2003 the Company repaid the coupon non-documentary bearer bonds with a nominal value of RR 3 billion issued in 1999.

12. TAXATION

Profit tax

In accordance with the RF Tax Code, from 1 January 2002 the Company switched from cash to accrual basis of revenue recognition for profit tax purposes. In this connection the Company accrued transition period profit tax of RR 14,134,156 to be settled within three years. The amounts of RR 5,679,159 and RR 4,227,498 were paid as due and recorded within line 150 'Income tax and other similar payments' in 2002 and 2003, respectively. The payable of RR 4,227,498 due in 2004, is recorded off balance sheet.

Theoretical profit tax of the reporting year determined based on accounting profit and statutory rates amounted to RR 47,274,465 (2002 – RR 18,238,551). According to the tax return the profit tax in 2003 included within line 150 'Income tax and similar payments' amounted to RR 14,539,463 (in 2002 – RR 197,449).

Non-temporary differences, which increase the taxable profit as compared to accounting profit, amounted to RR 15,398,464. The non-temporary differences arise from non-deductible expenses, such as charitable donations, social expenses and other non-production costs. In 2002 the amount of non-temporary differences, which decrease the taxable profit as compared to accounting profit, exceeded the amount of non-temporary differences, which increase the taxable profit as compared to accounting profit, by RR 2,467,963.

In 2003 deductible temporary differences that have impacted the difference between the theoretical profit tax expense and the actual current profit tax expense amounted to RR 6,520,231 (in 2002 – RR 57,923,359). Deductible temporary differences utilized in the reporting year totaled RR 74,194,691 (in 2002 – RR 121,159).

Deferred tax assets of RR 216,404 were charged against profit and loss in 2003 (in 2002 – nil).

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Deductible temporary differences principally arise from:

- longer useful lives of certain fixed asset items for tax purposes as compared to useful lives of these items for accounting purposes;
- changes in the accounting treatment of income from gas sales to the Far Abroad via the commissioner (see Note 2);
- utilization of tax losses incurred by the Company in prior periods.

In 2003 taxable temporary differences that have impacted the difference between the theoretical profit tax expense and the actual current profit tax expense amounted to RR 116,033,631 (in 2002 – RR 131,360,695). Taxable temporary differences utilized in the reporting year totaled RR 30,978,699 (2002 – RR 118,704).

Taxable temporary differences arise from:

- longer useful lives of certain fixed asset items for tax purposes as compared to useful lives of these items for accounting purposes;
- changes in the accounting treatment of income from gas sales to the Far Abroad via the commissioner (see Note 2).

Other taxes

For the purposes of other sales based taxes, except for profit tax, the Company recognizes sale revenue on a cash basis. Given the above taxes accrued for the reporting period are as follows:

	Recognition of revenue for accounting purposes	Recognition of revenue for tax purposes	Difference
Value added tax	87,866,089	92,226,603	(4,360,514)
Excise tax	155,345,827	144,321,605	11,024,222

Outstanding deferred VAT and deferred excise tax were RR 38,302,156 and RR 31,784,654 as of 31 December 2003 and 2002, respectively. Deferred taxes related to receivables due for payment beyond 12 months of the reporting date were recorded in line 520 «Other non-current liabilities» of the balance sheet and amounted to RR 902,931 and RR 345,985 as of 31 December 2003 and 2002, respectively.

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13. SALES OF GOODS, WORK AND SERVICES
(NET OF VAT, EXCISE TAX, CUSTOMS DUTIES AND SIMILAR PAYMENTS)

	Year ended 31 December	
	2003	2002
Gas sales		
Russia	195,796,383	140,098,300
outside Russia	427,731,890	353,457,229
including Far Abroad countries	<u>383,683,156</u>	<u>305,649,562</u>
	623,528,273	493,555,529
Revenue from leasing of assets	98,308,748	92,634,199
Revenue from sale of gas transportation services	30,928,321	16,966,691
Revenue from sale of gas condensate and refined products	27,013,170	-
Other	834,468	<u>1,696,753</u>
Total	780,612,980	604,853,172

The 26 % increase in gas sales was principally the result of higher gas prices in the Far Abroad countries, as a result of higher world oil prices, and in Russia, following increases in inter-group tariffs and prices set by the Federal Energy Commission (FEC). In 2002 almost all gas sales in Russia comprised sales to OOO «Mezhregiongaz» for further resale to Russian customers. From January 2003 approximately 21 % of gas sales in Russia are sold directly by the Company.

Revenues from the sale of gas transportation services include services provided to the «Itera Group» which amounted to RR 7,483,326 (31.7 bcm) and RR 13,082,238 (60.9 bcm) for years ended 31 December 2003 and 2002, respectively. The «Itera Group» is a producer and distributor of gas in the Russian Federation and other former Soviet Union countries.

In January 2003, the Company commenced gas transportation sales to «Eural Trans Gas», which amounted to RR 14,759,079 (34.9 bcm) for the year ended 31 December 2003. «Eural Trans Gas», incorporated in Hungary, was established to sell Central Asian gas to customers in Europe.

In January 2003 the Company commenced sales of gas condensate and refined products to domestic and export markets (see Note 14). In prior years these sales were made directly by subsidiaries of the Company to customers.

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14. COST OF SALES AND COMMERCIAL EXPENSES
(LINES 020 AND 030 OF THE STATEMENT OF INCOME)

	Year ended 31 December	
	2003	2002
Purchase cost of gas, including gas sold		
in Russia	63,188,640	69,458,839
outside Russia	35,872,371	38,534,150
including Far Abroad countries	<u>27,562,702</u>	<u>27,477,258</u>
	99,061,011	107,992,989
Gas transportation costs, including:		
in Russia	134,019,979	122,051,587
outside Russia	175,687,654	146,203,237
including Far Abroad countries	<u>154,400,755</u>	<u>131,016,775</u>
	309,707,633	268,254,824
Cost of assets leased to subsidiaries	92,642,792	86,278,865
Cost of gas transportation services	36,261,941	18,803,790
Cost of purchased gas condensate, oil products and their refinery and transportation	26,127,711	-
Cost of other sales	<u>1,109,665</u>	<u>1,802,762</u>
Total	564,910,753	483,133,230

The increase in gas transportation costs mainly resulted from the increase in inter-group transportation tariffs.

In January 2003 the Company commenced purchases of gas condensate and refined products from its subsidiaries.

15. OTHER OPERATING INCOME AND EXPENSES

	Year ended 31 December			
	2003		2002	
	Income	Expenses	Income	Expenses
Sale of foreign currency	664,970,848	665,975,850	487,767,064	488,860,876
Movements of securities, including promissory notes	25,268,983	25,213,419	36,918,726	36,739,546
Sale and other disposal of other assets	199,134	169,424	5,725,769	5,669,585
Doubtful debt provision (see Note 8)	3,309,959	-	421,987	5,800,547
Investment impairment provision (see Note 7)	146,712	4,751,688	-	-
Revaluation of investments (up to market value)	44,130	-	-	282,038
Other	<u>830,223</u>	<u>9,092,913</u>	<u>360,919</u>	<u>6,818,125</u>
Total	694,769,989	705,203,294	531,194,465	544,170,717

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16. NON-SALE INCOME AND EXPENSES

Prior year profit for 2003 and 2002 includes revenues from the sale of gas to Far Abroad countries of RR 33,502,863 in December 2002 and of RR 30,705,423 in December 2001, respectively (see Note 3). Prior year losses for 2003 and 2002 include costs related to gas supplied to Far Abroad countries of RR 16,460,937 in December 2002 and of RR 20,797,381 in December 2001.

17. PROFIT PER SHARE

Basic profit per share has been calculated by dividing the net profit for the year by the weighted average number of common shares outstanding during the year.

There were 23,673,513 thousand weighted average common shares outstanding during the years ended 31 December 2003 and 2002, respectively.

As of the beginning and end of the reporting period the Company did not have any dilutive potential securities and therefore the diluted profit per share is the same as the basic profit per share.

18. RELATED PARTIES

The principal subsidiary companies 100 % owned by the Company:

000 «Astrakhangazprom»	000 «Informgaz»	000 «Severgazprom»
000 «Bashtransgaz»	000 «IRTs Gazprom»	000 «Servicegazprom»
000 «Burgaz»	000 «Kavkaztransgaz»	000 «Liquefied gas»
000 «VNIlgaz»	000 «Kaspiygazprom»	000 «Surgutgazprom»
000 «Volgogradtransgaz»	000 «Kubangazprom»	000 «Surgutstroygaz»
000 «Volgotransgaz»	000 «Lentransgaz»	000 «Tattransgaz»
000 «Gazkomplektimpex»	000 «Mezhregiongaz»	000 «Tomsktransgaz»
000 «Gaznadzor»	000 «Mostransgaz»	000 «TyumenNIlgiprogaz»
000 «Gazobezопасnost»	000 «Nadymgazprom»	000 «Tyumentransgaz»
000 «Gazsviaz»	000 «Nadymstroygazdobytcha»	000 «Uraltransgaz»
000 «Gazflot»	000 «Novourenogysky GCC»	000 «Urengoygazprom»
000 «Gazexport»	000 «Noyabrskgazdobytcha»	000 «Yugtransgaz»
«Gazprom-Finance B.V.»	000 «Orenburggazprom»	000 «Yamburggazdobytcha»
000 «Gazpromavia»	000 «Permtransgaz»	ZAO «Yamalgazinvest»
ZAO «Gazprominvestholding»	000 «Samaratransgaz»	

All the above companies, excluding «Gazprom-Finance B.V.», which is registered in the Netherlands, are registered in Russia. These companies are principally engaged in producing, transporting and selling gas.

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(in thousands of Roubles)**

18. RELATED PARTIES (continued)

Other significant subsidiary companies of OAO «Gazprom»:

Company	% of interest	Type of activity	Location
ZAO «Kostromatrubininvest»	99.4	Manufacture of pipes	Russia
OOO «Gaztorgpromstroy»	99.0	Trading	Russia
AB «Gazprombank» (ZAO)	87.5	Banking	Russia
OAO «Gazprom-Media»	85.8	Media investments	Russia
OAO «Zapsibgazprom»	76.7	Production of gas	Russia
OAO «Volgogradneftemash»	51.5	Production of oil and gas refinery equipment	Russia
OAO «Vostokgazprom»	51.0	Investing	Russia
OAO «Gazsibcontract»	51.0	Investing, trading	Russia
OAO «Gazenergoservice»	51.0	Equipment repairing	Russia
OAO «AK «Sibur»	50.7	Gas and petrochemical products trading and refinery	Russia
OAO «Gazavtomatika»	49.6	Science	Russia

Principal associated companies of OAO «Gazprom»:

Company	% of interest	Type of activity	Location
AO «Moldovagaz»	50.0	Transportation and sale of gas	Moldova
AO «Overgaz Inc.»	50.0	Sale of gas	Bulgaria
AO «Slovrusgaz»	50.0	Sale of gas	Slovakia
«Blue Stream Pipeline Company B.V.»	50.0	Construction and gas transportation	Holland
«EuRoPol GAZ s.a.»	48.0	Transportation and sale of gas	Poland
ZAO «Armrosgazprom»	45.0	Sale of gas	Armenia
AO «Turusgaz»	45.0	Sale of gas	Turkey
ZAO «KazRosGaz»	37.5	Transportation and sale of gas	Kazakhstan
ZAO «Rosshelf Company»	35.6	Production of gas	Russia
ZAO «Stella Vitae»	30.0	Transportation and sale of gas	Lithuania
AO «Gazum»	25.0	Sale of gas	Finland
AO «Latvias Gaze»	25.0	Transportation and sale of gas	Latvia

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Other related parties

«WINGAS GmbH»	АО «Prometheus Gas»
AEB	ОАО «Sibur-Tyumen»
«Gas und Warenhandelsgesellschaft GmbH»	ОАО «Stroytransgaz»
АО «Panrusgaz»	

The Company has direct or indirect (via its subsidiaries) interests in the above companies. In addition, the Company has its representatives in the Board of Directors and therefore exercises significant influence over their operations. These companies, except for ОАО «Stroytransgaz», AEB and ОАО «Sibur-Tyumen» are involved in gas transportation and gas sale on the territory of the countries where they are registered.

Transactions with related parties

In the reporting period the Company purchased gas, gas condensate, refined products, transportation and storage of gas and refinery services from its subsidiaries and associated companies.

Prices for gas and gas transportation services purchased from subsidiaries companies were set in accordance with inter-group tariffs, approved by the Company.

In the reporting period the Company sold gas to its subsidiaries and associated companies. The Company also sold gas, gas condensate and refinery products through its subsidiary companies.

Gas is sold to the subsidiary companies at inter-group tariffs and at FEC prices.

Gas is sold to the associated companies and other related parties, except for АО «Moldovagaz» on the basis of long-term contracts, at market prices based on world oil and gas prices. Gas prices per thousand cubic meters ranged from USD 78 to USD 147 in 2003 and from USD 70 to USD 131 in 2002. Gas is sold to АО «Moldovagaz» based on annual contracts with fixed prices. Prices of gas per thousand cubic meters sold to Moldova amounted to USD 80 in 2003 and 2002.

During 2003 and 2002 the Company supplied gas to the principal associated and other related companies for RR 84,436,707 and RR 66,023,183 (net of VAT, excise, custom duties and similar payments), respectively.

As of 31 December 2003 and 2002 the amounts due from the principal associated and other related companies to the Company totaled RR 57,829,722 and RR 48,284,845, respectively. Amounts due from АО «Moldovagaz» are presented net of a bad debt provision of RR 16,721,156 and RR 14,914,372 at 31 December 2003 and 2002, respectively.

In 2003 and 2002 the Company purchased gas from ЗАО «KazRosGaz» for RR 1,315,377 and RR 131,674, respectively, at USD 28 per thousand cubic meters.

In addition, the Company purchased gas transportation services from certain of the above companies, mainly from «EuRoPol GAZ s.a.», that amounted to RR 20,423,440 and RR 10,987,756 for 2003 and 2002, respectively. The cost of these services was determined based on prices for gas sold to these companies.

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In the normal course of business, the Company enters into transactions with OAO «Stroytransgaz» for the construction of pipelines in Russia based on the results of tenders. During 2003 and 2002 transactions with OAO «Stroytransgaz» were entered into under contracts which had been executed by certain prior members of the Board of Directors who at that time, together with close members of their families, owned significant interests in OAO «Stroytransgaz».

During 2003 and 2002 OAO «Stroytransgaz» completed construction and assembling work for the Company for RR 703,114 and RR 802,727, respectively. Accounts payable to OAO «Stroytransgaz» amounted to RR 423,628 and RR 668,277 as of 31 December 2003 and 2002. In addition, as of 31 December 2003 and 2002 the Company has an investment of RR 588,958 under a partnership agreement with OAO «Stroytransgaz».

In 2002 the Company received short-term loans from AEB in the amount of RR 4,529,854 (9.0 % p.a.). No loans from AEB were received by the Company in 2003.

The amount of guarantees issued by the Company on behalf of its related parties totaled RR 57,634,816 and RR 67,034,576 as at 31 December 2003 and 2002, respectively (see Note 19).

Remuneration to senior management and directors

In 2003 and 2002 the Company paid remunerations to members of the Board of Directors and Management Committee, amounting to approximately RR 222,531 and RR 127,963, respectively.

The above remuneration to members of the Board of Directors is subject to approval by the General shareholders meeting. Salaries and bonuses paid to senior management are determined by the terms of annual employment contracts.

19. CONTINGENCIES

Contingencies in respect of guarantees issued

	As of 31 December	
	2003	2002
Guarantees issued on behalf of:		
«Blue Stream Pipeline Company B.V.»	51,687,478	60,616,794
«Interconnector»	32,399,950	34,962,840
OOO «Interprokom»	1,295,350	15,097,590
«EuRoPol GAZ s.a.»	5,947,338	6,417,782
OOO «Neftekhimleasing»	6,012,745	6,416,276
«Itera Group» companies	1,731,253	3,087,598
«Albustan Investments Ltd.»	2,395,936	2,843,123
Other	9,026,006	17,454,641
Total	110,496,056	146,896,644

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Line «Other» includes mainly guarantees issued on behalf of the Company's subsidiaries under contracts for purchasing equipment and construction and installation works.

The management expect that the Company will have to pay some of its obligations under guarantees issued.

Operating environment

The Russian Federation 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 tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

While there have been improvements in economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic financial and monetary measures undertaken by the government, together with tax, legal, regulatory and political developments.

20. POST BALANCE SHEET EVENTS

Credits and loans

In January 2004 the Company has received USD 200 million of borrowings under a loan facility with «Commerzbank» with an interest rate of LIBOR + 2.75 %. The loan facility expires in 2009.

In February 2004 the Company issued RR 10,000,000 documentary bonds due in 2007 with an interest rate of 8 %.

Investments

In March 2004 OAO «Gazprom» acquired a 34.0 % interest in «Lietuvos Dujos» from the State Property Fund of Lithuanian Republic for RR 1,019,915 (USD 36 million – equivalent to 100 million Lithuanian Litas).

Chief Executive Officer

Chief Accountant

29 March 2004



A.B. Miller

E.A. Vasilieva

**OPEN JOINT-STOCK COMPANY «GAZPROM»
STATUTORY CONSOLIDATED FINANCIAL (ACCOUNTING) REPORTS
OF OAO «GAZPROM»
PREPARED IN ACCORDANCE WITH RUSSIAN ACCOUNTING STANDARDS**

AUDIT REPORT
on statutory consolidated financial (accounting) reports

To the shareholders of Open Joint-Stock Company «Gazprom»

Auditor

ZAO PricewaterhouseCoopers Audit

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

Audit license № E000376 issued by the Ministry of Finance of the Russian Federation on 20 May 2002. The license is valid until 20 May 2007.

Client

Open Joint-Stock Company «Gazprom»

Russian Federation, 117997, Moscow, Nametkina str.,16

State registration certificate No. 022.726 was issued by the Moscow Registration Bureau on 25 February 1993.

AUDIT REPORT**on statutory consolidated financial (accounting) reports
of Open Joint-Stock Company «Gazprom»****To the shareholders of Open Joint-Stock Company «Gazprom»**

1. We have audited the attached 2003 statutory consolidated financial (accounting) reports of Open Joint-Stock Company «Gazprom» (OAO «Gazprom») and its subsidiaries (the «Group»). The statutory consolidated financial (accounting) reports comprise the Consolidated Balance Sheet as of 31 December 2003, the Consolidated Statement of Income for the year 2003 and the Notes to the consolidated financial (accounting) reports (together, the «statutory consolidated financial (accounting) reports»). These statutory consolidated financial (accounting) reports were prepared by the management of OAO «Gazprom» in accordance with the Federal Law on Accounting and Regulation on Accounting and Reporting in the Russian Federation adopted by Decree of the Ministry of Finance of the Russian Federation dated 30 December 1996 №. 112. Such statutory consolidated financial (accounting) reports differ to a significant extent from those prepared in accordance with International Financial Reporting Standards.
2. Preparation of the statutory consolidated financial (accounting) reports is the responsibility of the management of OAO «Gazprom». Our responsibility is to express our opinion on the statutory consolidated financial (accounting) reports and on whether the accounting is conducted in accordance with the Russian legislation based on our audit.
3. We conducted our audit in accordance with the Federal Law on Auditing, in accordance with Federal Auditing Standards, International Standards on Auditing and our internal standards.

Our audit was planned and performed to obtain reasonable assurance about whether the statutory financial (accounting) reports are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statutory consolidated financial (accounting) reports, assessing the accounting principles and methods used, rules for preparation of statutory consolidated financial (accounting) reports, evaluating significant estimates made by the management of OAO «Gazprom» and the overall statutory consolidated financial (accounting) reports presentation. We believe that our audit provides a reasonable basis for our opinion on these statutory consolidated financial (accounting) reports and whether the accounting is conducted in accordance with the Russian legislation.

4. In our opinion, the statutory consolidated financial (accounting) reports attached to this opinion have been properly prepared to present in all material respects the assets and liabilities of OAO «Gazprom» and its subsidiaries as of 31 December 2003 and the results of their operations for the period from 1 January through 31 December 2003 in accordance with the Federal Law on Accounting and Reporting in the Russian Federation adopted by Decree of the Ministry of Finance of the Russian Federation dated 29 July 1998 № 34н (н), and the methodology recommendations on preparing statutory consolidated accounting reports approved by Order of the Ministry of Finance of the Russian Federation dated 30 December 1996 № 112.

25 May 2004

Director of ZAO

K.Rowden

Statutory Auditor
Certificate No K 008770
For general audit
termless

S.A.Blokhin

ОАО «GAZPROM»
CONSOLIDATED BALANCE SHEET
as of 31 December 2003
(in million Roubles)

Note	ASSETS	As of 1 January 2003	As of 31 December 2003
I. NON-CURRENT ASSETS			
	Intangible assets, including:	22,764	37,624
	intellectual property rights	1,118	992
19	goodwill on subsidiaries	21,620	36,594
5	Fixed assets, including:	1,385,547	1,442,140
	including plots of land and natural resources	14	183
	buildings, constructions, machinery and equipment	1,368,445	1,422,414
6	Construction in progress	279,502	308,623
7,19	Long-term financial investments, including:	140,986	133,607
	investments in subsidiaries	23,754	30,077
	investments in associates	25,664	24,367
	investments in other companies	7,276	4,085
	loans issued to companies beyond 12 months	20,647	17,885
	other long-term financial investments	63,645	57,193
13	Deferred tax assets	17,265	16,662
	Other non-current assets	16,492	21,194
	TOTAL Section I	1,862,556	1,959,850
II. CURRENT ASSETS			
	Inventories, including:	109,721	136,418
	materials and other inventories	56,122	65,473
	work in progress	1,826	3,254
	finished goods and goods for resale	47,564	60,957
	goods dispatched	63	1,187
	expenses related to future periods	4,146	5,547
	Value added tax on purchased goods	73,810	85,909
	Accounts receivable (payment expected beyond 12 months of the reporting date), including:	29,246	42,710
8	buyers and customers	18,880	22,339
	promissory notes, bills of exchange receivable	3,961	1,649
8	other accounts receivable	6,405	18,722
	Accounts receivable (payment expected within 12 months of the reporting date), including:	251,544	269,496
8	buyers and customers	124,884	130,389
	promissory notes, bills of exchange receivable	2,531	4,398
	advances paid	25,901	41,197
8	other accounts receivable	98,228	93,512
	Short-term financial investments, including:	51,610	67,267
9	loans issued to companies due within 12 months	6,312	5,314

Note	ASSETS	As of 1 January 2003	As of 31 December 2003
9	other short-term financial investments	45,298	61,953
10	Monetary assets, including:	84,864	93,974
	cash on hand	39	31
	rouble bank accounts	15,439	26,045
	non-rouble bank accounts	20,812	23,270
	other monetary assets	48,574	44,628
	Other current assets	393	1,085
	TOTAL Section II	601,188	696,859
4	TOTAL ASSETS	2,463,744	2,656,709

Note	EQUITY AND LIABILITIES	As of 1 January 2003	As of 31 December 2003
11	III. EQUITY AND RESERVES		
	Charter capital	118,368	118,368
	Treasury shares	(9,838)	(14,299)
	Additional capital	1,272,959	1,275,165
	Legal reserve, including:	11,111	15,797
	reserves and provisions formed in accordance with legislation	8,650	8,694
	reserves formed in accordance with foundation documents	2,461	7,103
	Special purpose financing	349	898
	Retained earnings	312,893	469,150
	Social government fund	8,238	7,299
	TOTAL Section III	1,714,080	1,872,378
	Minority interest	4,181	8,465

IV. NON-CURRENT LIABILITIES			
12	Borrowings, including:	263,990	275,661
	bank borrowings due for repayment beyond 12 months of the reporting date	254,257	267,444
	other borrowings due for repayment beyond 12 months of the reporting date	9,733	8,217
13	Deferred tax liabilities	33,858	62,059
13,14	Other non-current liabilities	42,529	41,017
	TOTAL Section IV	340,377	378,737

V. CURRENT LIABILITIES			
12	Loans and borrowings, including:	173,522	144,329
	loans due for repayment within 12 months of the reporting date	69,445	34,860
	borrowings due for repayment within 12 months of the reporting date	5,882	3,836
	current portion of loans and borrowings due for repayment beyond 12 months of the reporting date	98,195	105,633
	Accounts payable, including:	219,654	224,798
	suppliers and contractors	66,267	73,956
	promissory notes, bills of exchange payable	29,531	14,326
	salaries payable	2,936	5,485
	payable to state non-budget funds	1,329	1,890
	payable to budget	31,949	38,353
	advances received	2,404	3,559

Note	EQUITY AND LIABILITIES	As of 1 January 2003	As of 31 December 2003
13	other accounts payable	85,238	87,229
	Dividends payable	-	45
	Income of future periods	4,564	1,860
	Provisions for future expenses and payments	7,366	26,097
	TOTAL Section V	405,106	397,129
	TOTAL EQUITY AND LIABILITIES	2,463,744	2,656,709

Chairman of the Management Committee

Chief Accountant



A.B. Miller

E.A. Vasilieva

ОАО «GAZPROM»
CONSOLIDATED STATEMENT OF INCOME
for the year ended 31 December 2003
(in million Roubles)

Note		For 2003	For 2002
INCOME FROM AND EXPENSES ON ORDINARY ACTIVITIES			
4,15	Sales of goods, products, works and services (less value added tax, excise tax and other similar mandatory payments)	844,566	613,745
4,16	Cost of goods, products, works and services sold	(503,535)	(381,665)
4,16	Commercial expenses	(503)	(200)
4,16	Management expenses	(51,312)	(43,748)
	Gross profit from sales	289,216	188,132
OTHER INCOME AND EXPENSES			
	Interest income	3,787	4,041
	Interest expense	(31,471)	(29,902)
	Income from investments in other companies	1,121	828
17	Other operating income	821,017	655,957
17	Other operating expenses	(841,251)	(674,294)
18	Non-operating income	81,819	66,353
18	Non-operating expenses	(83,655)	(64,136)
	Profit of associates	10,705	5,754
	Extraordinary income	134	194
	Extraordinary expenses	(157)	(230)
	Profit before profit tax	251,265	152,697
	Deferred tax assets	(988)	15,108
	Deferred tax liabilities	(28,000)	(32,741)
13	Current profit tax	(41,565)	(23,894)
13	Other similar payments	(7,102)	(9,282)
	Net profit of the reporting period before minority interest	173,610	101,888
	Minority interest	(2,733)	2,077
	Net profit of the reporting period	170,877	103,965
FOR REFERENCE			
	Non-temporary tax liabilities	10,375	4,545
21	Basic profit per share (in roubles)	8.34	4.86

Chairman of the Management Committee

Chief Accountant



A.B. Miller

E.A. Vasilieva

ОАО «GAZPROM»
NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS
(in million Roubles)

1. GENERAL INFORMATION

ОАО «Газпром» 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 operates as a vertically integrated business (see Note 4). The principal elements of the Group's vertically integrated business are the following:

- 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 Group's assets are mainly located on the territory of the Russian Federation.

On average, the Group employed 299,717 and 297,528 people in 2003 and 2002, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

Accounting principles

The statutory consolidated accounting reports of the Group have been prepared in accordance with the accounting rules effective in the Russian Federation, in particular, the Federal Law On Accounting dated 29 November 1996 № 129-FZ and the Regulation on Accounting and Reporting in the Russian Federation adopted by Decree of the Ministry of Finance of the Russian Federation dated 29 July 1998 № 34н (н), and other statutory accounting and reporting regulatory acts.

Assets are accounted for at actual purchase costs, except for fixed assets that are revalued on a regular basis, investments for which fair value is determinable, and other assets against which impairment provisions have been formed in accordance with the applicable accounting rules and regulations.

Basis of consolidation

The Consolidated Balance Sheet and Consolidated Statement of Income and the Notes to the statutory consolidated accounting reports (together, the «statutory consolidated accounting reports») comprise a consolidation of the statutory accounting reports of ОАО «Газпром» and the Group's principal subsidiaries and associates prepared in accordance with the methodology recommendations on preparing statutory consolidated accounting reports, approved by Order of the Ministry of Finance of the Russian Federation dated 30 December 1996 № 112 («Order 112»).

With the exception of the Group's banking subsidiaries, all significant investments in wholly and partly owned subsidiary undertakings have been included in the statutory consolidated accounting reports in compliance with the consolidation methodology. Included on an equity basis are the results and net assets of associates, which are mainly gas distribution businesses in East and West European countries and Former Soviet Union countries, and petrochemical operations.

ОАО «GAZPROM»
NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS
(in million Roubles)

As permitted under Order 112, the Group's banking subsidiaries, including AB «Gazprombank» (ZAO) (see Note 19) and ZAO AKB «Sovfintrade», have been accounted for on the basis prescribed for inclusion in the statutory consolidated accounting reports of investments in associates.

NPF «Gazfund» is a non-state pension fund controlled by the Group. The Group also controls ОАО «Sogaz» which is an insurance company. NPF «Gazfund» and ОАО «Sogaz» are both included in the statutory consolidated accounting reports in compliance with the consolidation methodology.

Assets and liabilities denominated in foreign currency

The official exchange rate of the Russian Rouble («RR») effective at the date of a transaction, was used to account for transactions made in foreign currency. Monetary assets and liabilities denominated in foreign currencies are recorded at amounts calculated based on the official exchange rate of the RR which equalled RR 29.4545 and RR 31.7844 for USD 1, and RR 36.8240 and RR 33.1098 for Euro 1 as of 31 December 2003 and 2002, respectively.

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

Exchange differences arising on the retranslation of the assets and liabilities and income and expenses of foreign subsidiaries and associates are recognised as translation differences and included in additional capital. Statements of income of foreign entities are translated at average exchange rates for the year.

Current and non-current assets and liabilities

On the balance sheet accounts receivable and accounts payable, including loans and borrowings, are treated as current if the term of their circulation (maturity) does not exceed 12 months after the reporting date. All other assets and liabilities are treated as non-current. Investments are included in current assets if they are anticipated to be held for less than 12 months after the reporting date. Other investments are included in non-current assets.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings, primarily relating to the acquisition of petrochemical companies affiliated with ОАО «Sibirsko-Uralskaya Neftegazokhimicheskaya Kompania» («ОАО АК Сибур») (see Note 19) and non-core businesses, is recorded in the statutory consolidated accounting reports and represents the difference between the carrying value of acquired investments and the nominal value of the shares at the date of their acquisition. Goodwill is depreciated over 20 years starting from the month following the month of acquisition.

ОАО «GAZPROM»
NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS
 (in million Roubles)

Fixed assets

Fixed assets include assets which conform to the requirements of the Russian accounting rule «Accounting for Fixed Assets» (PBU 6/01) approved by order of the RF Ministry of Finance dated 30 March 2001, № 26n. Fixed assets include real property assets that have been put into operation but are still in the process of state registration as of the date of the present accounting reports. Although this was a departure from accounting rules effective up to 1 January 2004, Group management believe that such accounting treatment ensures a more accurate reflection of the asset position of the Group given that these assets are actually used in the operations of the Group and generate economic benefits.

Fixed assets are recorded at historical (or, for fixed assets acquired prior to 1 January 2001, revalued) cost net of depreciation accumulated for the period of their use.

Fixed assets acquired and constructed before 1 January 2002 are depreciated based on uniform depreciation rates approved by Decree of the USSR Council of Ministers dated 22.10.1990, № 1072 «On Uniform Depreciation Rates of Fixed Asset of the USSR National Economy». Fixed assets acquired after 1 January 2002 are depreciated at rates based on estimated useful lives of these assets.

Classification of fixed assets by depreciation groups approved by Government Resolution of the Russian Federation № 1 dated 1 January 2002, is used as one of the sources of information about useful lives of fixed assets. The Group has adopted the following useful lives for fixed asset groups:

	Useful lives of assets recorded on the balance sheet	
	(number of years)	
	before 1 January 2002	after 1 January 2002
Pipelines	33	25
Wells and production equipment	12 – 40	5 – 15
Machinery and equipment	10 – 18	5 – 25
Buildings and roads	8 – 100	10 – 50
Social assets	5 – 50	5 – 50

Fixed assets are depreciated on a straight-line basis.

The following assets are not depreciated:

- state social assets;
- fully depreciated assets that are still on the balance sheet.

ОАО «GAZPROM»
NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS
(in million Roubles)

Construction in progress

Construction in progress includes, but without limitation to, completed fixed assets which have been put into operation but have not been properly registered in the State Register. Such assets are depreciated similarly to depreciation of fixed assets and in the accounting reports they are recorded at historical cost less accumulated depreciation.

Financial investments

Investments are recorded at their historical cost, except for investments for which market value is determinable and investments for which impairment provision is created.

Investments for which market value is determinable are restated to their market value as of the end of the reporting period. The change in the investment value is recorded in other operating income and expenses.

Debt securities for which the market price can not be reliably determined are recorded at cost of purchase.

Impairment provision is recorded as of the end of the reporting period for those investments for which no current market value is determinable and for which there are indications as of the reporting date that their recoverable value was less than carrying value and the decline in value was significant and non-temporary. These provisions are based on the judgment of the Group management as to the extent to which the carrying value of the investments are recoverable. The investment impairment provision has been created in the amount by which the carrying value of investments exceeds their estimated recoverable value. Impairment provisions are charged against other operating expenses.

Securities which do not have market value (except for those individually identifiable) are recorded in the statutory accounting reports upon disposal under the first in, first out (FIFO) method.

Other investments (including individually identifiable securities such as promissory notes) without market value are recorded upon disposal at the historical cost of each unit.

Income and expenses related to investments are included within other operating income and expenses.

Inventories

Inventories are carried at the historic cost of purchase or production and expensed using the weighted average cost method.

Gas in pipelines and underground storage produced and purchased but unsold as of the end of the reporting period, is presented in line «Finished goods and goods for resale» of the Consolidated Balance Sheet.

Transportation costs related to the transportation of natural gas on the territory of Russia and abroad are allocated between volumes of gas sold and gas in pipelines and underground storage as of the end of the reporting period.

Finished goods are carried at the historic cost of production.

**ОАО «GAZPROM»
NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS
(in million Roubles)**

Management expenses (general administration costs)

General administration costs are expensed in full on a monthly basis.

Accounts receivable

Accounts receivable due from buyers and customers are recorded based on prices contracted between the Company and buyers (customers) taking account of all discounts (markups) provided by the Company. Bad debts are written off when recognized as such.

Unsecured past due trade receivables are stated net of doubtful debt provisions. These provisions are based on the estimates of the Company management as to the extent to which the debts collectibility is doubtful. Doubtful debt provisions are charged against other operating expenses in the Consolidated Statement of Income.

Loans and borrowings issued

Additional costs attributable to the receipt of borrowings are included in other operating expenses in the reporting period in which they are incurred.

Provisions for future expenses and payments

The Group records provisions for future expenses and payments primarily related to employees unused vacation, annual performance bonuses and for future fixed assets repairs.

The Group has made a provision on the year-end bonuses payable to its employees. The amount of the provision was determined based on the Group's established procedures for calculating year-end bonuses.

The provision for employees unused vacation is calculated based on the number of unused vacation days, and the average daily pay for the reporting period.

The amount of provision for future fixed assets repairs unused as of the end of the reporting period has been credited to the Consolidated Statement of Income.

The amounts of provisions have been charged to expenses related to ordinary activities.

Deferred taxes

Following the enactment of RAR 18/02 «Accounting for Profit Tax» (adopted by order of the Ministry of Finance of the Russian Federation № 114n dated 19 November 2002) the Company started to recognize deferred profit tax (deferred tax assets and deferred tax liabilities). Deferred tax assets and liabilities are amounts which can impact the current profit tax in future reporting periods. Amounts which are deducted in the current period from taxable profit, but in future periods for accounting profit are referred to as taxable temporary differences and result in deferred tax liabilities. Amounts which are deducted in the current period from accounting profit but in future periods for taxable profit are referred to as deductible temporary differences and result in deferred tax assets.

ОАО «GAZPROM»
NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS
(in million Roubles)

To reflect changes in the accounting policies related to profit tax calculations and the related deferred tax assets and liabilities, and to ensure comparability of the accounting reports balances, the 2003 opening balances have been adjusted as of 31 December 2002. Corresponding adjustments have been made to the retained earnings balance, while comparatives for 2002 in the 2003 Consolidated Statement of Income have been adjusted for deferred tax assets and liabilities as well as for permanent tax liabilities which had impacted the current profit tax for 2002. Non-temporary tax liabilities are amounts deductible from accounting profit but never from taxable profit.

Revenue recognition

Revenues from sales are recognized at the moment when goods are shipped (or services rendered) and corresponding settlement documents submitted to customers. Revenues are presented net of value added tax, excise tax, customs duties, and other similar charges.

3. CHANGES IN THE ACCOUNTING POLICIES AND COMPARATIVE AMOUNTS

Changes in the accounting policies

In the reporting year the Company's accounting policies have been adjusted in line with requirements of new accounting regulations introduced in 2003.

In the context of the above changes and following recommended new models of the statutory accounting reports and procedures of preparation and submission of the statutory accounting reports adopted by the Order of the Ministry of Finance of the Russian Federation № 67n dated 22 July 2003, the Company has changed the presentation of the 2003 statutory accounting reports as compared with the 2002 statutory accounting reports. The rules of presentation of individual elements in statutory accounting reports have not practically changed except for those in the note on cash flows (see Note 10). The breakdown of information in the note on cash flows by operating, investment and financing activity is based on the interpretation of investment and financial activities, which is changed in 2003 compared to 2002. As a result the breakdown by activity (categories) of certain transactions related to cash inflows and outflows in 2002 as presented in the 2003 accounting reports is different from its presentation in the 2002 statutory accounting reports. The note on equity and reserves (see Note 11) includes figures reflecting changes in elements of the Company's capital in the inter-reporting period between the previous and the current reporting years due to changes in the Company's accounting policies.

Comparative amounts

To ensure comparability the 2002 balances in the 2003 accounting reports have been adjusted as follows.

Consolidated Balance Sheet comparative amounts as of 1 January 2003

The 2003 opening balances have been formed by adjusting the 2002 closing balances for the changes in the accounting policies related to investments and deferred taxes (see Note 2), for revaluation of fixed assets by one of the Group subsidiaries and for the reclassification of the long-term value added tax attributable to construction in progress from the line «Value added tax on purchased goods» to «Other non-current assets» of the Consolidated Balance Sheet following reassessment by the Group management of the plans of completion of certain assets included in construction in progress. The balances that changed are as follows:

OAO «GAZPROM»
NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS
(in million Roubles)

Article	As of 31 December 2002	Adjustment	As of 1 January 2003
Fixed assets	1,383,299	2,248	1,385,547
Long-term financial investments	148,558	(7,572)	140,986
Deferred tax assets	-	17,265	17,265
Other non-current assets	12,553	3,939	16,492
Value added tax on purchased goods	77,535	(3,725)	73,810
Accounts receivable (payment expected within 12 months of the reporting date)	248,456	3,088	251,544
Short-term financial investments	63,001	(11,391)	51,610
Monetary assets	99,835	(14,971)	84,864
Other current assets	154	239	393
Total assets	2,474,624	(10,880)	2,463,744
Treasury shares	-	(9,838)	(9,838)
Additional capital	1,271,142	1,817	1,272,959
Retained earnings	350,364	(37,471)	312,893
Minority interest	3,427	754	4,181
Deferred tax liabilities	-	33,858	33,858
Total equity and liabilities	2,474,624	(10,880)	2,463,744

Following the enactment of RAR 19/02 «Accounting for Investments» (adopted order of the Ministry of Finance of the Russian Federation № 126n dated 10 December 2002) deposits with credit institutions have been reclassified from other monetary assets to the long-term and short-term financial investments, and treasury shares have been reclassified from the short-term financial investments to the section «Equity and Reserves» of the Consolidated Balance Sheet and classified as a deduction from shareholder's equity (see Notes 7 and 11).

Consolidated Statement of Income comparative amounts for 2002

Comparative amounts for 2002 in the 2003 Consolidated Statement of Income have been adjusted for changes in the 2003 accounting policies related to the financial investments and deferred taxes and for the impact of changes to the Group's statutory consolidated financial (accounting) reports (see Note 2).

Article	2002 accounting reports	Adjustment	2003 accounting reports
Cost of goods, products, works and services sold	(379,656)	(2,009)	(381,665)
Managements expenses	(45,757)	2,009	(43,748)
Deferred tax assets	-	15,108	15,108
Deferred tax liabilities	-	(32,741)	(32,741)
Net profit of the reporting period before minority interest	119,521	(17,633)	101,888
Net profit of the reporting period	121,598	(17,633)	103,965

ОАО «GAZPROM»
NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS
(in million Roubles)

Changes in the 2004 accounting policies

There were no changes made in the 2004 accounting policies of the Group, which can materially effect 2004 accounting reports.

4. SEGMENT INFORMATION

The following business segments are identified within the Group:

- 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
As of 1 January 2003						
Segment assets	351,061	72,348	1,396,169	205,974	138,412	2,163,964
Unallocated assets						418,562
Inter-segment elimination						(118,782)
Total assets						2,463,744
Segment liabilities	20,920	17,189	46,664	111,996	11,261	208,030
Unallocated liabilities						656,235
Inter-segment elimination						(118,782)
Total liabilities						745,483
Capital expenditures for the period	65,630	3,817	67,427	3,191	6,048	146,113
Depreciation	18,109	1,914	73,363	1,366	2,081	96,833
Investments in associates and joint activity	17,212	9,944	3,300	12,566	14,920	57,942
As of 31 December 2003						
Segment assets	393,483	92,314	1,388,167	228,008	177,224	2,279,196
Unallocated assets						472,348
Inter-segment elimination						(94,835)
Total assets						2,656,709

OAO «GAZPROM»
NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS
(in million Roubles)

	Production	Refining	Transport	Distribution	Other	Total
As of 31 December 2003						
Segment liabilities	24,801	24,568	52,454	80,751	20,312	202,886
Unallocated liabilities						667,815
Inter-segment elimination						(94,835)
Total liabilities						775,866
Capital expenditures for the period	91,056	9,447	70,311	5,044	10,500	186,358
Depreciation	20,215	2,766	74,885	1,552	3,810	103,228
Investments in associates and joint activity	15,013	1,883	5,105	11,092	19,917	53,010
For the year ended 31 December 2003						
Segment revenues						
Inter-segment sales	100,889	17,859	224,459	25,207	5,406	373,820
External sales	4,351	92,180	28,226	653,423	66,386	844,566
Total segment revenues	105,240	110,039	252,685	678,630	71,792	1,218,386
Segment expenses						
Inter-segment expenses	(3,129)	(17,662)	(32,574)	(320,455)	-	(373,820)
External expenses	(68,697)	(77,369)	(193,572)	(145,991)	(69,721)	(555,350)
Total segment expenses	(71,826)	(95,031)	(226,146)	(466,446)	(69,721)	(929,170)
Segment gross profit	33,414	15,008	26,539	212,184	2,071	289,216
For the year ended 31 December 2002						
Segment revenues						
Inter-segment sales	106,155	15,956	185,776	16,974	-	324,861
External sales	3,351	53,702	17,013	493,718	45,961	613,745
Total segment revenues	109,506	69,658	202,789	510,692	45,961	938,606
Segment expenses						
Inter-segment expenses	(1,529)	(14,411)	(19,510)	(289,411)	-	(324,861)
External expenses	(60,141)	(46,181)	(152,215)	(120,317)	(46,759)	(425,613)
Total segment expenses	(61,670)	(60,592)	(171,725)	(409,728)	(46,759)	(750,474)
Segment gross profit	47,836	9,066	31,064	100,964	(798)	188,132

OAO «GAZPROM»
NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS
(in million Roubles)

The inter-segment sales mainly consist of:

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

Internal transfer prices are established by the management of the Group with the objective of providing for the specific 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. The change in inter-segment sales and expenses by segment in 2003 is primarily due to changes in internal transfer prices.

Information on certain geographical segments data is presented in Note 15.

5. FIXED ASSETS

	Pipelines	Wells	Machinery and equipment	Buildings and roads	Others	Total
As of 1 January 2002						
Cost	2,082,617	292,141	347,002	128,648	122,407	2,972,815
Accumulated depreciation	(1,044,934)	(226,411)	(271,856)	(35,196)	(52,720)	(1,631,117)
Net book value	1,037,683	65,730	75,146	93,452	69,687	1,341,698
Additions	36,649	17,536	33,804	34,407	19,149	141,545
Disposals	(211)	(116)	(650)	(1,224)	(910)	(3,111)
Depreciation	(60,974)	(11,565)	(13,855)	(4,391)	(6,048)	(96,833)
Net book value as of 31 December 2002	1,013,147	71,585	94,445	122,244	81,878	1,383,299
Revaluation of fixed assets	80	471	645	792	260	2,248
Net book value as of 1 January 2003	1,013,227	72,056	95,090	123,036	82,138	1,385,547
As of 1 January 2003						
Cost	2,119,113	310,010	382,295	163,829	141,953	3,117,200
Accumulated depreciation	(1,105,886)	(237,954)	(287,205)	(40,793)	(59,815)	(1,731,653)
Net book value	1,013,227	72,056	95,090	123,036	82,138	1,385,547
Additions	39,309	13,541	42,641	30,176	37,745	163,412
Disposals	(39)	(4)	(583)	(2,016)	(949)	(3,591)
Depreciation	(62,202)	(11,319)	(16,695)	(5,259)	(7,753)	(103,228)
Net book value as of 31 December 2003	990,295	74,274	120,453	145,937	111,181	1,442,140
As of 31 December 2003						
Cost	2,157,780	323,498	423,409	192,351	180,388	3,277,426
Accumulated depreciation	(1,167,485)	(249,224)	(302,956)	(46,414)	(69,207)	(1,835,286)
Net book value	990,295	74,274	120,453	145,937	111,181	1,442,140

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6. CONSTRUCTION IN PROGRESS

	1 January 2003	31 December 2003
Construction in progress	253,493	280,646
Equipment for installation	26,009	27,977
Total	279,502	308,623

In 2003 construction in progress activity primarily related to the development of the Zapolyarnoye and Yamburg gas condensate fields, Zapolyarnoye-Urengoy pipeline and the construction of the Yamal-Europe pipeline.

The balance of construction in progress as of 31 December and 1 January 2003 includes assets constructed and put into operation in the amount of RR 113,098 and RR 79,691 (net of accumulated depreciation), respectively, which are subject to registration in the State Register.

7. LONG-TERM FINANCIAL INVESTMENTS

Investments in subsidiaries

Included in investments in subsidiaries are the Group's banking subsidiaries with the carrying value of RR 23,820 and RR 17,903 as of 31 December and 1 January 2003, respectively (see Note 2).

Investments in subsidiaries are stated net of an impairment provision in the amount of RR 16,155 and RR 12,499 as of 31 December and 1 January 2003, respectively. The impairment provision is primarily related to non-core investments.

Investments in associates

The increase in investments in associates during 2003 mainly relates to the acquisition of a 26.1 % interest in ordinary shares of ОАО «Stroytransgaz» (see Note 19) and an increase in the earnings of «SGT EuRoPol GAZ s.a.», partially offset by the decrease in the earnings of «WINGAS GmbH» and consolidation of ОАО «Sibur-Tyumen» as a subsidiary in 2003. Prior to the acquisition of an additional interest in ОАО «Sibur-Tyumen» it was accounted for as an associate (see Note 19).

Investments in associates are stated net of an impairment provision in the amount of RR 4,465 and RR 364 as of 31 December and 1 January 2003, respectively.

Investments in other companies

Investments in other companies of the Consolidated Balance Sheet are stated net of an impairment provision in the amount of RR 6,099 and RR 5,822 as of 31 December and 1 January 2003, respectively. The impairment provision is primarily related to non-core investments.

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Loans issued to companies due beyond 12 months

Loans issued to companies include amounts due from «WINGAS GmbH» of RR 14,830 and RR 14,330 as of 31 December and 1 January 2003, respectively. The loan is due in 2007.

Loans issued to companies also include amounts due from OAO AKB «National Reserve Bank» in the amount of RR 2,062 and RR 2,225 as of 31 December and 1 January 2003, respectively. The loan is due in December 2006.

Other long-term financial investments

	1 January	31 December
	2003	2003
Joint activity, including:	21,374	18,976
OAO «NK Rosneft» and ZAO «Rosshelf» (developing of Arctic shelf in the Barents Sea and Pechora Sea)	2,552	6,311
OAO «Stroytransgaz» (investment in securities)	5,719	-
OAO «Gazcom» (development of a satellite communication system)	2,655	2,661
Other, including:	42,271	38,217
South Pars (gas condensate field in Iran)	17,212	15,013
Long-term deposits	12,537	12,548
Third party promissory notes	9,401	5,999
Total	63,645	57,193

In September 2002 the Group entered into an agreement with OAO «Stroytransgaz» to establish a joint activity. The joint activity was formally established in October 2002 after the Group had contributed promissory notes of OAO «Gazprom» with a nominal value of RR 5,719 payable in January 2004 and OAO «Stroytransgaz» had contributed 1,144 million of OAO «Gazprom» ordinary shares. Voting rights attributable to OAO «Gazprom» ordinary shares held by the joint activity are controlled by the Group. In March 2003 OAO «Stroytransgaz» terminated its participation in the joint activity agreement with the Group in return for promissory notes contributed by the Group into this joint activity. Accordingly, as of 31 December 2003, the Group's investment in the joint activity was accounted for as treasury shares for accounting purposes (see Note 11). However, legally the shares are not treasury shares of OAO «Gazprom».

Joint activity with OAO «NK Rosneft»

The joint activity was established to develop the Arctic shelf (Shtokmanovskoye and Prirazlomnoye fields) in the Barents Sea and Pechora Sea. From inception OAO «Gazprom» and ZAO «Rosshelf», a 53 % subsidiary of OAO «Gazprom», had 99.1 % and 0.9 % direct interests in the joint activity, respectively. In October 2002 OAO «Gazprom» and its subsidiary ZAO «Rosshelf» signed an amendment to the joint activity agreement that provided for an additional participant – ZAO «Sevmorneftegaz». ZAO «Sevmorneftegaz» is a company jointly controlled by ZAO «Rosshelf» and OAO «NK Rosneft-Purneftegaz», a subsidiary of OAO «NK Rosneft». Under the agreement, in February 2003 ZAO «Sevmorneftegaz» made a non-cash contribution valued at RR 4,334 thus obtaining a 48.9 % interest in the jointly controlled assets of the joint activity. As a result of the transaction OAO «Gazprom» and ZAO «Rosshelf» had 48.7 % and 2.4 % direct interests in the joint activity, respectively, and the Group's total effective interest decreased from 99.6 % to 62.9 %. In July 2003 all joint activity parties and OAO «NK Rosneft» signed an agree-

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ment to provide OAO «NK Rosneft» with a 49.95 % direct interest in the joint activity in recognition of its prior investments into the joint activity through OAO «NK Rosneft-Purneftegaz». The effect of this transaction was to decrease the Group's total effective interest in the joint activity from 62.9 % to 48.85 % and to establish joint control of the assets of the joint activity between the Group and OAO «NK Rosneft».

8. ACCOUNTS RECEIVABLE

Accounts receivable (payment expected beyond 12 months of the reporting date)

Accounts receivable from buyers and customers (payment expected beyond 12 months of the reporting date) in the Consolidated Balance Sheet primarily include amounts related to pipes supplied by OAO «Gazprom» to an associated undertaking, «SGT EuRoPol GAZ s.a.» (see Note 20), for construction of the Polish section of the «Yamal-Europe» pipeline. The long-term portion of the «SGT EuRoPol GAZ s.a.» debt was RR 8,371 and RR 10,308 as of 31 December and 1 January 2003, respectively.

Included in accounts receivable from buyers and customers of the Consolidated Balance Sheet as of 31 December and 1 January 2003 were long-term trade receivables for gas in the amount of RR 4,728 and RR 1,413, respectively, which have increased primarily as a result of new restructuring agreements signed in 2003 with OAO «GP Beltransgas» and a number of domestic customers.

Accounts receivable (payment expected within 12 months of the reporting date)

The short-term portion of the «SGT EuRoPol GAZ s.a.» debt, included into accounts receivable from buyers and customers, was RR 2,093 and RR 3,618 as of 31 December and 1 January 2003, respectively.

As of 31 December 2003 trade receivables from the «Itera Group» and «Eural Trans Gas» for gas transportation and storage services (net of amount of doubtful debt provision) amounted to RR 2,738 (RR 3,703) as of 1 January 2003) and RR 2,971 (nil as of 1 January 2003) (see Note 15), respectively.

Accounts receivable from buyers and customers as of 31 December and 1 January 2003 are shown net of a doubtful debt provision of RR 78,566 and RR 83,822, respectively. The doubtful debt provision is stated net of deferred excise tax on natural gas of RR 7,345 and RR 7,410 as of 31 December and 1 January 2003, respectively.

Included in accounts receivable of the Consolidated Balance Sheet as of 31 December and 1 January 2003 were advances paid in the amount of RR 41,197 and RR 25,901, respectively, which have increased primarily as a result of increased amounts of advances paid, increased volume of purchases and greater use of cash for advances in 2003 versus non-cash settlements in prior years. Promissory notes used for advances are classified as other accounts receivable.

As of 31 December and 1 January 2003 included within other accounts receivable are settlements on claims issued and recognized and commercial penalties awarded (net of amount of doubtful debt provision) in amount of RR 38,018 and RR 38,126, respectively (see Note 18), RR 8,479 and RR 8,230, respectively, of refundable taxes and RR 10,327 and RR 14,464, respectively, of advances in the form of promissory notes.

As of 31 December and 1 January 2003 other accounts receivable are recorded net of a doubtful debt provision of RR 10,910 and RR 10,193, respectively. This provision was created principally in respect of a number of debts due to the Group arising from payments under guarantees previously issued as there is significant uncertainty about the debts future collectibility.

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9. SHORT-TERM FINANCIAL INVESTMENTS

Loans issued to companies due within 12 months

As of 31 December 2003 loans issued to companies due within 12 months of the Consolidated Balance Sheet included loans in the amount of RR 2,118 issued to OOO «Fincom». The loan was issued in 2003, is due in January 2004 and bears an interest rate of 5 %.

Loans issued to companies due within 12 months of the Consolidated Balance Sheet are stated net of an impairment provision in the amount of RR 1,656 and RR 109 as of 31 December and 1 January 2003, respectively.

Other short-term financial investments

As of 31 December and 1 January 2003, other short-term financial investments included promissory notes of RR 32,438 and RR 24,012, respectively.

As of 31 December and 1 January 2003, other short-term financial investments are shown net of impairment provision in the amount of RR 819 and RR 1,591, respectively.

10. CASH FLOWS

	For 2003	For 2002
Cash at the beginning of the reporting period	83,118	68,217
Cash provided by operating activities		
Total cash received, including:	963,149	704,292
sales of goods, products, works and services	934,728	679,297
sales of other assets	2,588	2,528
advances received from buyers (customers)	4,213	4,830
other receipts	20,170	17,637
impact of changes in exchange rates on currency transactions	1,450	-
Total cash used, including:	835,528	636,884
payment for purchased goods (work, products, services)	361,769	231,041
wages, salaries and social payments	88,625	63,705
dividend and interest payments	11,227	9,284
settlements with budget	306,626	253,286
advances paid	16,955	15,099
interest payments for borrowings received	25,058	26,401
other payments	25,268	13,147
impact of changes in exchange rates on currency transactions	-	24,921
Net cash provided by operating activities	127,621	67,408

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Cash flows used for investing activities		
Total cash received, including:	75,680	33,856
sale of fixed assets and other non-current assets	700	369
sale of securities and other financial investments	26,532	15,576
return of financial investments, repayment of loans granted	17,600	2,090
other receipts	30,848	15,821
Total cash used, including:	193,214	139,842
acquisition of fixed assets and other non-current assets	7,102	3,461
acquisition of securities and other financial investments	77,942	54,953
construction in progress	86,298	65,676
other payments	21,872	15,752
Net cash used for investing activities	(117,534)	(105,986)
Cash flows provided by financing activities		
Total cash received, including:	231,907	291,443
borrowings received	231,394	291,440
other receipts	513	3
Total cash used, including:	231,388	238,480
repayment of borrowings (net of interest)	229,889	238,177
other payments	1,499	303
Net cash provided by financing activities	519	52,963
Net increase of cash	10,606	14,385
Cash at the end of the reporting period	93,724	82,602
FOR REFERENCE:		
Impact of changes in exchange rates	(1,164)	6,348

In accordance with the methodology recommendations on the procedures for preparing statutory accounting reports approved by Order of the Ministry of Finance of the Russian Federation dated 22 July 2003 № 67н (n) foreign currency cash balances and all foreign currency receipts and payments reported in the note on cash flows are restated using the exchange rates of the Central Bank of the Russian Federation effective at the end of the respective periods.

The Group maintained cash balances with its banking subsidiaries of RR 30,046 and RR 23,908 at 31 December and 1 January 2003, respectively.

Included within other monetary assets in the Consolidated Balance Sheet are balances totalling to RR 31,188 and RR 38,854, as of 31 December and 1 January 2003, respectively, which are restricted as to withdrawal under the terms of certain borrowings.

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11. EQUITY AND RESERVES

ОАО «Gazprom»'s charter capital amounts to RR 118,368 (23,674 million of fully paid shares with the nominal value of 5 roubles each) and did not change in 2003.

Treasury shares are recorded in the Consolidated Balance Sheet at their purchase cost. The number of treasury shares held by subsidiaries of the Group, excluding the banks, totals 3,063 million and 2,307 million as of 31 December and 1 January 2003, respectively. These balances include 750 million and 1,109 million treasury shares of ОАО «Gazprom» held by NPF «Gazfund» as of 31 December and 1 January 2003, respectively, and 1,144 million treasury shares held by the joint activity as of 31 December 2003 (see Note 7).

As of 31 December and 1 January 2003 the Group's banking subsidiaries held 778 million and 390 million of the ordinary shares of ОАО «Gazprom», respectively. The Group controls the voting rights of these shares.

	For 2003	For 2002
Balance at the end of the prior reporting period (Section III of the Consolidated Balance Sheet)	1,759,572	1,643,750
Change in opening balance	(45,492)	-
Balance at the beginning of the reporting period (Section III of the Consolidated Balance Sheet)	1,714,080	1,643,750
Increase of treasury shares	(4,461)	-
Increase of additional capital	2,206	6,584
change in the Group structure and change of interest in subsidiaries	1,642	2,296
differences resulting from the translation of foreign investments	1,146	4,693
revaluation surplus upon disposal of revalued fixed assets	(583)	(363)
other movements	1	(42)
Increase of reserve capital	4,686	4,827
allocation from retained earnings	4,627	4,821
change in the Group structure	59	6
Increase of retained earning of prior periods	(14,620)	(15,001)
change in the Group structure and change of interest in subsidiaries	(1,568)	(1,279)
revaluation surplus upon disposal of revalued fixed assets	583	363
dividends accrued	(8,459)	(9,260)
allocations to reserve fund	(4,627)	(4,821)
allocation to purpose financing funds	(549)	-
other movements	-	(4)
Retained earnings of the reporting year	170,877	121,598
Decrease of social government fund	(939)	(411)
social assets transferred to State authorities	(939)	(411)
Increase (decrease) of special purpose financing	549	(1,775)
special purpose financing received (used)	549	(1,775)
Balance at the end of the reporting period (Section III of the Consolidated Balance Sheet)	1,872,378	1,759,572

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In accordance with the decision of the General shareholders meeting, based on the 2002 results of OAO «Gazprom», final dividends were accrued in the amount of RR 0.40 per common share.

The Charter of OAO «Gazprom» provides for establishing a reserve fund in the amount not less than 5 % of the charter capital. The fund is formed by mandatory annual allocations of not less than 5 % of net profit.

12. BORROWINGS

Lender	Currency	Maturity	As of 1 January 2003	As of 31 December 2003
«Morgan Stanley AG»	US Dollar	2013	-	53,199
Loan participation notes (issued September 2003)	Euro	2010	-	37,593
«Salomon Brothers AG»	US Dollar	see below	38,849	36,013
«Credit Lyonnais»	US Dollar	2005	54,325	32,556
«Dresdner Bank»	US Dollar	2005	39,219	20,070
OAO «Sberbank RF»	RR	2004	40,247	19,850
«Bayerische Hypo-und Vereinsbank AG»	US Dollar	2008	23,557	18,326
«Deutsche Bank AG»	US Dollar	2006	3,190	17,748
«Intesa BCI»	US Dollar	2007	23,959	16,423
«Mannesmann (Deutsche Bank AG)»	Euro	2008	17,909	15,424
«Depfa Bank»	US Dollar	2008	-	15,116
«Societe Generale»	US Dollar	2008	10,349	9,183
«ABN AMRO»	US Dollar	2004	6,473	8,964
«Mitsuho Bank (Fuji Bank)»	US Dollar	2010	9,598	8,816
German banking consortium	Euro	2007	8,873	7,889
International banking consortium	Euro	2007	11,728	7,733
«SACE»	US Dollar	2012	7,436	7,503
«WestLB AG»	US Dollar	2005	-	6,335
«Moscow Narodny Bank»	US Dollar	2006	7,507	5,215
OAO «Vneshtorgbank»	US Dollar	2004	21,331	4,720
«Bayerische Hypo-und Vereinsbank AG»	Euro	2006	6,037	4,642
«Alfa Bank»	US Dollar	2004	4,776	4,426
«Credit Suisse First Boston»	US Dollar	2006	5,366	3,481
«HSBC Bank plc»	US Dollar	2004	-	2,950
«Commerzbank»	US Dollar	2009	-	2,950
«Credit Suisse First Boston»	US Dollar	2004	-	2,949
AB «Gazprombank» (ZAO)	Euro	2007	816	2,693
Consortium of Hungarian banks	US Dollar	2005	3,858	2,380
AB «Gazprombank» (ZAO)	Euro	2003	6,622	-
«Deutsche Bank AG»	US Dollar	2003	4,938	-
OAO «Sberbank RF»	Euro	2003	3,350	-
OAO «Bank Menatep SPb»	US Dollar	2003	3,191	-
«Citibank NA New York»	US Dollar	2003	3,190	-

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Lender	Currency	Maturity	As of 1 January 2003	As of 31 December 2003
Other borrowings	Various	Various	<u>70,818</u>	<u>44,843</u>
Total borrowings			437,512	419,990

	As of 1 January 2003	As of 31 December 2003
Total borrowings, including:		
due within 12 months of the reporting date	75,327	38,696
current portion of borrowings due for repayment beyond 12 months of the reporting date	98,195	105,633
due beyond 12 months of the reporting date	<u>263,990</u>	<u>275,661</u>
Total borrowings	437,512	419,990

Bank borrowings

As of 31 December and 1 January 2003 long-term borrowings of RR 94,161 and RR 144,180, respectively, were secured by gas sales to Western Europe.

As of 31 December 2003 long-term bank borrowings included loans received in 2003 from «Morgan Stanley AG» in connection with the issuance of USD 1,750 million of Loan Participation Notes due 2013 with an interest rate of 9.625 %, and loans received in connection with the issuance of EURO 1,000 million of Loan Participation Notes due 2010, with an interest rate of 7.8 %.

As of 31 December 2003 and 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 USD 700 million Loan Participation Notes have a put option due 21 October 2005.

In 2003 interest rates on the long-term foreign currency denominated borrowings ranged from 2,5 % to 13,3 %. Similar rates for 2002 ranged from 3.4 % to 13.3 %.

Interest rates on the short-term foreign currency denominated borrowings ranged from 4.3 % to 10.8 % and on rouble short-term borrowings from 8.8 % to 16.5 % in 2003. In 2002 these rates ranged from 5.0 % to 15.5 % on the short-term foreign currency denominated borrowings and from 5.0 % to 20.1 % on the rouble short-term borrowings.

Other borrowings

In 2002 OAO «Gazprom» placed RR 5,000 of bonds with a due date of 3 November 2005 with the interest rate of 15 % p.a. payable every 6 months. As of 31 December 2003 the total amount of the issue, excluding the discount related to future periods, is recorded on the Consolidated Balance Sheet within other borrowings due for repayment beyond 12 months of the reporting date.

In April 2003 the Company repaid the coupon non-documentary bearer bonds with a nominal value of RR 3 billion issued in 1999.

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13. TAXATION

Profit tax

In accordance with the Tax Code of the Russian Federation, from 1 January 2002 the Group recognizes sales revenue for profit tax purposes on an accrual basis rather than a cash basis. In this connection in 2002 the Group accrued transition period profit tax of RR 24,065 to be settled over a period up to five years. Of that amount, RR 6,545 and RR 7,523 were paid as due in 2003 and 2002, respectively, and recorded within other similar payments in the consolidated income statement. The payable of RR 9,997 is due in the next three years (including RR 6,402 due in 2004) and is recorded off-balance sheet.

In 2003 and 2002 theoretical profit tax determined based on accounting profit and statutory rates amounted to RR 60,117 and RR 36,896, respectively. According to the tax returns the profit tax in 2003 and 2002 included within line Current Profit Tax amounted to RR 41,565 and RR 23,894, respectively.

The current profit tax in the Consolidated Statement of Income is profit tax for the reporting period.

Non-temporary differences, which increase the taxable profit as compared to accounting profit, in 2003 and 2002 amounted to RR 89,997 and RR 68,910, respectively. The non-temporary differences principally arise from non-deductible expenses, such as social expenses, charitable donations and other non-production costs.

Non-temporary differences which decreased the taxable profit as compared to accounting profit amounted to RR 49,071 and RR 52,359 for 2003 and 2002, respectively. These non-temporary differences arise principally from non-taxable income, in particular income from the extinguishment of interest on restructured taxes payable as a result of compliance with the accelerated debt settlement schedule (see Note 14).

In 2003 and 2002 incurred deductible temporary differences which have decreased the taxable profit as compared to accounting profit amounted to RR 41,523 and RR 65,195, respectively.

Deductible temporary differences incurred in 2003 principally arise from:

- longer useful lives of certain fixed asset items for tax purposes as compared to useful lives of these items for accounting purposes;
- geological and geophysical exploration, research and development and other expenses deductible for tax purposes later than for accounting purposes.

Deductible temporary differences incurred in 2002 principally arise from tax losses incurred by OAO «Gazprom» in 2002.

Deductible temporary differences settled in 2003 and 2002 totaled RR 45,669 and RR 2,248, respectively. Settlement of these differences in 2003 is principally due to the utilization of tax losses incurred by OAO «Gazprom» in 2002.

In 2003 and 2002 taxable temporary differences that have increased the taxable profit as compared to accounting profit amounted to RR 121,622 and RR 141,221, respectively.

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Taxable temporary differences which were incurred in 2003 and 2002 principally arise from:

- longer useful lives of certain fixed asset items for accounting purposes as compared to useful lives of these items for tax purposes;
- excess costs of storage included in the cost of finished goods that could not be deductible.

Taxable temporary differences settled in 2003 and 2002 totaled RR 4,926 and RR 4,792, respectively.

Other similar payments in the Consolidated Statement of Income include other expenditures payable to budget and non-budget funds out of current year profit.

	For 2003	For 2002
Transition period profit tax	6,545	7,523
Other similar payments:		
Penalties	123	106
Interest and other taxes	403	1,579
Total paid and payable to budget	7,071	9,208
Penalties	1	1
Interest	30	73
Total paid and payable to non-budget funds	31	74
Total	7,102	9,282

Value added tax and excise tax

Outstanding value added tax (VAT) and excise tax due from customers and ultimately payable to the budget are included within other accounts payable. The other accounts payable balance as of 31 December 2003 includes deferred VAT and excise tax of RR 52,138 and RR 15,835, respectively. As of 1 January 2003 other accounts payable include deferred VAT and excise tax of RR 62,022 and RR 16,668, respectively. Outstanding VAT and excise taxes related to receivables due for payment beyond 12 months of the reporting date are recorded in other non-current liabilities of the Consolidated Balance Sheet and amount to RR 3,164 and RR 3,143 as of 31 December 2003 and 1 January 2003, respectively.

14. OTHER NON-CURRENT LIABILITIES

As of 31 December and 1 January 2003 other non-current liabilities included RR 11,380 and RR 21,992, respectively, of restructured taxes payable to the federal budget. 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 were restructured in years 2000, 2001 and 2002 following the application of Government Resolution dated 3 September 1999 № 1002. The Group's current restructuring agreements presume payments of outstanding restructured taxes over a period of ten years, in accordance with agreed payment schedules. Failure to pay the restructured taxes as they become due would result in reinstatement of the original liability.

During the years ended 31 December 2003 and 2002 having complied with the terms of the accelerated repayment schedules of such payables provided for by the regulation some of the Group's subsidiaries became eligible to extinguish one half of restructured

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tax interest and fines. The gain recorded upon extinguishment of restructured tax interest and fines is recorded in the Consolidated Statement of Income as a part of non-operating income in the amount of RR 7,073 and RR 25,378 for the years ended 31 December 2003 and 2002 (see Note 18).

In addition, other non-current liabilities includes promissory notes payable beyond 12 months of the reporting date, in the amount of RR 19,928 and RR 10,105 as of 31 December and 1 January 2003, respectively.

15. SALES OF GOODS, PRODUCTS, WORKS AND SERVICES

	For 2003	For 2002
Gas sales to customers (net of VAT, excise and other similar mandatory payments) in:		
Russia	186,650	134,664
Former Soviet Union countries (excluding Russia)	44,049	47,973
Europe	<u>427,075</u>	<u>314,432</u>
Net sales of gas	657,774	497,069
Sales of gas condensate and oil and gas products (net of VAT and excise)	92,180	53,702
Sales of gas transportation services (net of VAT)	28,226	17,013
Other sales (net of VAT)	<u>66,386</u>	<u>45,961</u>
Net sales	844,566	613,745

In 2003, net gas sales increased by 32 % as compared with 2002 primarily as a result of higher gas prices and volumes for sales to customers in Russia and Europe. The increase in average prices of gas sales to Europe in 2003 compared to 2002 was due to higher world oil product prices.

Sales of gas condensate and oil and gas products increased primarily due to the fact that «Sibur» increased its level of operations following the cessation of bankruptcy procedures in September 2002 (see Note 19).

Sales of gas transportation services include services provided to the «Itera Group» in the amount of RR 7,462 (31.7 bcm) and RR 13,082 (60.9 bcm) for years ended 31 December 2003 and 2002, respectively. The «Itera Group» is a producer and distributor of gas in the Russian Federation and other former Soviet Union countries.

The Group also had gas sales in the Russian Federation (net of VAT and excise tax) to companies of the «Itera Group» amounting to RR 6,388 (15.5 bcm) and RR 1,759 (8.1 bcm) for the years ended 31 December 2003 and 2002, respectively. Trade receivables in respect of gas sales to the «Itera Group» amounted to RR 1,694 and RR 631 as of 31 December and 1 January 2003, respectively.

In January 2003, the Group commenced gas transportation sales to «Eural Trans Gas», which amounted to RR 14,759 (34.9 bcm) for the year ended 31 December 2003. «Eural Trans Gas», incorporated in Hungary, was established to sell Central Asian gas to customers in Europe. Trade receivables in respect of gas transportation services provided to «Eural Trans Gas» amounted to RR 2,971 and nil as of 31 December and 1 January 2003, respectively.

Other sales have increased primarily as a result of increased sales of materials to capital contractors, transportation services, other than gas transportation services, and construction works.

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**16. COST OF GOODS, PRODUCTS, WORKS AND SERVICES SOLD,
COMMERCIAL AND MANAGEMENT EXPENSES**

	For 2003	For 2002
Gas transit costs	108,711	93,667
Depreciation	99,499	89,824
Staff costs	97,740	62,206
Materials	47,849	42,087
Repairs and maintenance	42,957	26,078
Taxes	31,454	36,638
Purchased gas	28,783	4,881
Cost of goods for resale	25,192	19,803
Electricity	24,312	13,124
Processing services	16,243	12,433
Other	32,610	24,872
Total cost of goods, products, works and services sold, commercial and management expenses	555,350	425,613

The increase in transit costs is primarily due to higher tariffs for gas transportation via Poland, cost of transportation on the territory of Kazakhstan and Uzbekistan in connection with the services provided to «Eural Trans Gas», which commenced in January 2003, and increased transportation costs in Turkey and Belarus. The increase was partially offset by the reduced transportation cost on the territory of Ukraine following the reduction of transportation tariff effective 1 January 2003.

Staff costs and social expenses increased primarily due to an increase in average staff salaries and other compensation payments to employees, including vacation and bonus.

Taxes decreased primarily due to the road users tax which was abolished from 1 January 2003 and amounted to RR 12,008 in 2002. Natural resources production tax amounted to RR 19,538 and RR 20,909 in 2003 and 2002, respectively.

Cost of goods for resale increased primarily due to the increased level of operations of ОАО «AK «Sibur» in 2003 and acquisition of additional interests in a number of Russian petrochemical companies (see Note 19).

Cost of purchased gas increased primarily as a result of purchases of gas from Central Asia for resale to customers in Western Europe, which commenced in January 2003.

Other expenses primarily include costs of insurance, auto services, rent and other services.

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17. OTHER OPERATING INCOME AND EXPENSES

	For 2003		For 2002	
	Income	Expenses	Income	Expenses
Sale of foreign currency	694,930	696,041	513,236	514,354
Movements of securities, including promissory notes	89,497	82,201	122,132	121,033
Doubtful debt provision (see Note 8)	545	-	-	5,490
Investment impairment provision (see Note 7)	-	8,810	-	-
Revaluation of investments (to market value)	450	-	-	-
Other	35,595	54,199	20,589	33,417
Total	821,017	841,251	655,957	674,294

The decrease in income and expenses from movements of securities is primarily due to a reduction in the volume of purchases and sales of bank promissory notes.

18. NON-OPERATING INCOME AND EXPENSES

	For 2003		For 2002	
	Income	Expenses	Income	Expenses
Reversal of fines and penalties payable to budget and non-budget funds	7,875	-	25,964	-
Exchange differences	54,230	44,818	22,339	30,831
Profit and losses of previous years identified in the reporting period	8,965	7,362	6,312	4,540
Penalties, interest and fines for contract violations	2,504	244	3,450	716
Other	8,245	31,231	8,288	28,049
Total	81,819	83,655	66,353	64,136

Included within reversal of fines and penalties payable to budget and non-budget funds is income from the reversal of fines and penalties payable to budget in the amount of RR 7,073 and RR 25,378 recognized in 2003 and 2002, respectively. This income was recognized by subsidiaries from the reversal of restructured late payment interest accrued on tax liabilities as a result of meeting the terms of their accelerated debt settlement schedules (see Note 14).

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19. PRINCIPAL CONSOLIDATED SUBSIDIARY AND ASSOCIATES

Principal subsidiary undertakings, 100 % owned

000 «Astrakhangazprom»	000 «Informgaz»	000 «Severgazprom»
000 «Bashtransgaz»	000 «IRTs Gazprom»	OAO «Severneftegazprom»
000 «Burgaz»	000 «Kavkaztransgaz»	000 «Servicegazprom»
000 «VNIlgaz»	000 «Kaspiygazprom»	000 «Liquified gas»
000 «Volgogradtransgaz»	000 «Kubangazprom»	000 «Surgutgazprom»
000 «Volgotransgaz»	000 «Lentransgaz»	000 «Tattransgaz»
000 «Gazkomplektimpex»	000 «Mezhregiongaz»	000 «Tomsktransgaz»
000 «Gaznadzor»	000 «Mostransgaz»	000 «TyumenNIlgiprogaz»
000 «Gazobezopasnost»	000 «Nadymgazprom»	000 «Tyumentransgaz»
000 «Gazpromavia»	000 «Nadymstroygazdobytcha»	000 «Uraltransgaz»
000 «Gazpromstroyengineering»	000 «Novourengoysky GCC»	000 «Urengoygazprom»
000 «Gazpromtrans»	000 «Noyabrskgazdobytcha»	000 «Yugtransgaz»
000 «Gazsvyaz»	000 «Orenburggazprom»	ZAO «Yamalgazinvest»
000 «Gaztorgpromstroy»	000 «Permtransgaz»	000 «Yamburggazdobytcha»
000 «Gazflot»	000 «Podzemgazprom»	
000 «Gazexport»	000 «Samaratransgaz»	

All of these subsidiaries are incorporated in the Russian Federation and are mainly involved in production, processing, transportation and sale of gas and hydrocarbon products.

Certain other subsidiary undertakings, 100 % owned

Company	Type of activity	Location
000 «Gazprominvestholding»	Investing	Russia
OAO «Gazprom-Media»	Media	Russia
NPF «Gazfund»	Non-state pension fund	Russia
«Gazprom Finance B.V.»	Investing	Netherlands
«Gazprom UK Ltd.»	Investing, banking	United Kingdom
«Gazprom UK Trading Ltd.»	Gas distribution	United Kingdom
«Zarubezhgaz Erdgashandel GmbH» (ZGG)	Gas distribution	Germany
«Zarubezhgaz Management und Beteiligungsgesellschaft mbH» (ZMB)	Gas distribution	Germany
«Leadville Investments Ltd.»	Investing	Cyprus

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Other principal subsidiary undertakings

Company	% of interest	Type of activity	Location
«Wintershall Erdgas Handelshaus GmbH» (WIEH)	50	Gas distribution	Germany
«Wintershall Erdgas Handelshaus Zug AG» (WIEE)	50	Gas distribution	Romania
OAO «Volgogradneftemash»	51	Production of oil and gas refinery equipment	Russia
OAO «Vostokgazprom»	84	Production, processing and sale of gas and gas condensate	Russia
OAO «Gazavtomatika»	49	Research	Russia
AB «Gazprombank» (ZAO)	99	Banking	Russia
OAO «Gazenergoservice»	51	Equipment repairs	Russia
ZAO «Gerosgaz»	51	Investing, consultancy	Russia
OAO «Zapsibgazprom»	77	Construction	Russia
OAO «Kostromatrubinvest-Volgorechensky Trubny Zavod»	99	Production and sale of pipes	Russia
OAO «Krasnoyarskgazprom»	75	Geological, geophysics	Russia
ZAO «Purgaz»	51	Production of gas	Russia
ZAO «Rosshelf»	53	Investment in oil and gas fields	Russia
OAO «AK «Sibur»	78	Gas and petrochemical products trading and refining	Russia
OAO «TV Company NTV»	69	Media	Russia
OAO «Sogaz»	99	Insurance	Russia
ZAO AKB «Sovfintrade»	94	Banking	Russia
OAO «Spetsgazavtotrans»	51	Transport services	Russia
OAO «Centergas»	99	Construction	Russia

OAO «Severneftegazprom»

In February 2003 the Group acquired a 51.0 % additional interest in OAO «Severneftegazprom» from the «Itera Group» at the nominal value of the shares (RR 102 thousand) for cash and thereby increased its interest in the share capital of OAO «Severneftegazprom» to 100 %. In connection with the acquisition of this interest, the Group paid RR 369 in cash to the «Itera Group» to settle the amount owed by OAO «Severneftegazprom» to finance development work. OAO «Severneftegazprom», a production company, holds a license for the development of the Yuzhno-Russkoye field. OAO «Severneftegazprom» was accounted for as subsidiary from the date on which control was obtained. 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 carrying value of RR 356 for cash.

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». In April 2003, following the completion of legal procedures the Group established control over majority of these companies, including OAO «Sibur-Tyumen» (see Note 7), and increased its controlling interest in the share capital of OAO «AK «Sibur» from 50.7 % to 75.7 %. Nominal value of long-term promissory notes issued by the Group in connection with this transaction was RR 17,587 as of 31 December 2003. In September 2003 the Group acquired an additional 2.4 % interest in AK «Sibur» for RR 102.

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Media companies

In January 2003 in accordance with an option provided for by the global depositary receipts (GDRs) purchase agreement dated 1 April 2001 the Group acquired the global depositary receipts (GDRs) from the «SmallCap World Fund Inc.» through the depo account of AKB «Eurofinance» for USD 31,999 thousand paid in cash. In February 2003 GDRs were exchanged for common shares of OAO «TV Company NTV» and OAO «TNT-Teleset». As a result of this transaction the Group increased its interest in OAO «TV Company NTV» from 65.0 % to 69.4 % and in OAO «TNT-Teleset» from 50.0 % to 51.7 %.

Principal associates

Company	% of ordinary shares	Type of activity	Location
ZAO «Armrosgazprom»	45	Transportation and sale of gas	Armenia
ZAO «Agrochemical corporation Azot»	47	Sale of agricultural chemicals	Russia
«WINGAS GmbH»	35	Transportation and sale of gas	Germany
AO «Gazum»	25	Sale of gas	Finland
«Gas und Warenhandelsgesellschaft GmbH»	50	Sale of gas	Austria
«Blue Stream Pipeline company B.V.»	50	Construction, gas transportation	Netherlands
«SGT EuRoPol GAZ s.a.»	48	Transportation and sale of gas	Poland
ZAO «KazRosGaz»	50	Transportation and sale of gas	Kazakhstan
OAO «Latvias Gase»	25	Transportation and sale of gas	Latvia
AO «Moldovagaz»	50	Transportation and sale of gas	Moldova
AO «Pannusgaz»	40	Sale of gas	Hungary
«Progresgaz Trading Ltd»	25	Gas distribution	Yugoslavia
AO «Prometheus Gas»	50	Foreign trade	Greece
«Promgaz S.P.A.»	50	Gas distribution	Italy
AO «Slovrusgaz»	50	Sale of gas	Slovakia
ZAO «Stella Vitae»	30	Transportation and sale of gas	Lithuania
ZAO «Stimul»	38	Production of oil and gas condensate	Russia
OAO «Stroytransgaz»	26	Construction	Russia
AO «Turusgaz»	45	Sale of gas	Turkey
AO «Fragaz»	50	Gas distribution	France

In April 2003 the Group completed the acquisition of a 25.9 % interest in OAO «Stroytransgaz» ordinary shares and accordingly the Group's investment was classified as an investment in an associated undertaking. The consideration in the amount of RR 4,605 consisted primarily of promissory notes and cash. In August 2003 the Group acquired 15.54 % of preferred shares and an additional 0.2 % of ordinary shares in OAO «Stroytransgaz» for RR 152. OAO «Stroytransgaz» is a major Russian constructor of pipelines, compressor stations and refineries.

In February 2003 the Group sold 40.1 % out of the 46.4 % interest in the share capital of ZAO «Agrochemical Corporation Azot» at its carrying value of RR 394 for cash, reducing the Group's interest to 6.3 %. The shares were sold to the other shareholders of ZAO «Agrochemical Corporation Azot» as a result of the latter taking advantage of the pre-emptive purchase rights. In April 2003

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a part of this transaction was cancelled by an agreement of the parties. As a result the Group received back a 33.9 % interest in ZAO «Agrochemical Corporation Azot» and returned RR 333 of the cash received in February 2003. In July 2003 the Group acquired an additional 7.2 % interest in ZAO «Agrochemical Corporation Azot» at par value from the existing shareholders. The consideration of RR 71 was paid in cash. Accordingly, as of 31 December 2003 the Group had a 47.4 % interest in ZAO «Agrochemical Corporation Azot», which was included in other investments in associates.

20. RELATED PARTIES

During 2003 and 2002 the Group supplied gas to certain of its associates for RR 90,338 and RR 65,006, respectively.

Gas is sold to the above mentioned companies, except for AO «Moldovagaz», on the basis of long-term contracts, at prices based on world oil and gas prices. Gas prices per mcm ranged from USD 80 to USD 147 in 2003 and from USD 67 to USD 131 in 2002. Gas is sold to AO «Moldovagaz» based on annual contracts with fixed prices. Prices of gas per mcm sold to AO «Moldovagaz» amounted to USD 80 in 2003 and 2002.

In 2003 and 2002 the Group purchased gas from ZAO «KazRosGaz» for RR 4,154 and RR 132 at USD 30 and USD 28 per mcm, respectively.

In addition, the Group has purchased gas transportation services from certain associates, that amounted to RR 20,423 and RR 11,711 for 2003 and 2002, respectively. The cost of these services was determined based on prices of gas sold to these companies.

As of 31 December and 1 January 2003 the amounts due to the Group from its associates, including «SGT EuRoPol GAZ s.a.» (see Note 8), totalled RR 41,109 and RR 44,293, respectively. As of 31 December and 1 January 2003, the Group's doubtful debt provision related to amounts due from AO «Moldovagaz» amounted to RR 16,721 and RR 14,914, respectively.

In the normal course of business, the Group outsources pipeline construction services to third-party contractors through a tender process. ОАО «Stroytransgaz» has been a successful bidder in the large number of these tenders to construct pipelines in the Russian Federation.

ОАО «Stroytransgaz» rendered construction services for the Group in the amounts of RR 30,842 and RR 33,511 for the years ended 31 December 2003 and 2002, respectively. As of 31 December and 1 January 2003, the Group had advances and receivables due from ОАО «Stroytransgaz» in the amounts of RR 2,039 and RR 7,330, respectively. As of 31 December and 1 January 2003, the Group had accounts payable to ОАО «Stroytransgaz» in respect of construction of RR 11,102 and RR 10,406, respectively.

In 2002 the Group raised short-term loans from «Altalanos Ertekeforgalmi Bank Rt» (AEB), an associated undertaking of AB «Gazprombank» (ZAO), for the total amount of RR 4,530 (9.0 % per annum). During 2003 there were no loans raised from AEB.

A substantial portion of ОАО «AK «Sibur»'s transactions were executed with related parties. Prior to acquisition of additional interests in a number of these companies, ОАО «AK «Sibur»'s related party transactions were mainly with the then associates (see Note 19).

Remuneration to senior management and directors

In 2003 and 2002 ОАО «Gazprom» paid to members of the Board of Directors and Management Committee remuneration (salary and bonuses) for the total amount of RR 243 and RR 135, respectively. The remuneration of members of the Board of Directors is

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subject to approval by the General shareholders meeting. Salary and bonus compensation paid to members of the Management Committee is determined by the terms of employment contracts.

21. PROFIT PER SHARE

Profit per share was calculated by dividing the net profit for the year by the weighted average number of common shares outstanding during the year.

The weighted average number of common shares outstanding for the years ended 31 December 2003 and 2002 amounted to 20,490 million and 21,372 million, respectively.

22. CONTINGENCIES

Guarantees issued

	1 January 2003	31 December 2003
Outstanding guarantees issued on behalf of:		
«Blue Stream Pipeline Company B.V.» (BSPC)	60,617	51,687
«Interconnector (UK) Ltd»	34,963	32,400
NAK «Naftogaz Ukraine»	-	7,184
«Eural Trans Gas»	-	6,474
«SGT EuRoPol GAZ s.a.»	6,418	5,947
«Albustan Investments Ltd»	2,843	2,396
«Itera Group»	3,088	1,731
ООО «Interprokom»	15,098	1,295
Other	7,794	6,091
Total	130,821	115,205

The Group is obligated to provide guarantees to BSPC, an associated undertaking, for credit facilities provided by a group of Italian and Japanese banks to BSPC for the construction of the offshore portion of the Blue Stream pipeline. As of 31 December and 1 January 2003, BSPC had borrowed RR 36,170 and RR 37,258, respectively, of credit facilities which are guaranteed by the Group.

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

In August 2003 credit facilities in the amount of USD 227 million were provided to «Eural Trans Gas» by «Vnesheconombank» and guaranteed by the Group. The guarantee extends through December 2007. The credit facilities are for the purchase of natural gas in Central Asia which is then sold to the Group. Guarantees to NAK «Naftogaz Ukraine» were also provided by the Group in connection with purchases of natural gas from Central Asia.

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Included within other guarantees are mainly guarantees issued by subsidiaries under contracts for purchasing equipment, construction and installation works. As of 31 December and 1 January 2003 this balance includes guarantees issued by ОАО «АК «Сибур» to third parties in the amount of RR 83 and RR 2,572, respectively.

Operating environment

The Russian Federation 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 tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

Whilst there have been improvements in the economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2003 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

23. POST BALANCE SHEET EVENTS

Investments

In March 2004, the Group acquired a 34 % interest in «Lietuvos Dujos» from the State Property Fund of Lithuanian Republic for RR 1,020 (USD 1 is equivalent to 2.78 Lithuanian Litas).

In March 2004, ZMB, a Group subsidiary in Germany, acquired a 40.0 % interest in «Bosphorus Gas Corporation AS» for USD 596 thousand paid in cash. «Bosphorus Gaz Corporation AS» has operations in the distribution of natural gas in Turkey.

In March 2004 the Group has acquired a 20 % interest in «Odex Exploration Ltd.» (Cyprus) for USD 10,455 thousand. The company is involved in exploration and development of oil and gas fields in North Africa.

Following the acquisition of additional interests in a number of Russian petrochemical companies (see Note 19) in November 2003 the Group signed an agreement with ЗАО «Газонефтехимическая компания» to acquire a 14.23 % interest in ОАО «АК «Сибур» which was transferred to the Group in April 2004. Nominal value of long-term promissory note issued by the Group in connection with this transaction was RR 669 as of 31 December 2003. As a result of this transaction the Group increased its controlling interest

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in the charter capital of OAO «AK «Sibur» from 78.1 % to 92.3 %.

Loans and borrowings

In January 2004 the Company has received USD 200 million of borrowings under a loan facility with «Commerzbank» with an interest rate of LIBOR + 2.75 %. The loan facility expires in 2009.

In February 2004 the Company issued RR 10,000 documentary bonds due in 2007 with an interest rate of 8.0 %.

In April 2004 the Group issued USD 1,200 million of Loan Participation Notes due 2034 at an interest rate of 8.625 %, and have a put option in 2014. The Notes were issued under the USD 5,000 million Programme for the Issuance of Loan Participation Notes established on 22 September 2003.

In April 2004 the Company received USD 200 million of borrowings under a three-year syndicated loan with «ABN AMRO» with an interest rate of LIBOR + 2.75 %.

Taxation

From 1 January 2004 the following changes in tax legislation that may impact the financial position and financial results of the Group have become effective:

- excise tax on natural gas (produced after 1 January 2004) abolished;
- export duty on natural gas increased from 5 % to 30 %;
- VAT rate reduced from 20 % to 18 %,
- natural resources production tax changed from 16.5 % of the value of gas produced to a fixed rate of 107 roubles per mcm, and for gas condensate – from 16.5 % of the value of gas condensate produced from gas condensate fields and RR340 per ton of gas condensate produced from oil and gas condensate fields (the latter rate was subject to adjustments depending on fluctuations of oil prices and the RR exchange rate) to a single rate of 17.5 % of the value of gas condensate produced);
- maximum property tax increased from 2 % to 2.2 %.

Management of the Group currently estimates that the changes in tax legislation will likely result in an increased tax burden beginning in 2004.

Chairman of the Management Committee

A.B. Miller

Chief Accountant



E.A. Vasilieva

25 May 2004