OAO GAZPROM
IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2003

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AUDITORS' REPORT

To the Shareholders of OAO Gazprom

1. We have audited the accompanying consolidated balance sheet of OAO Gazprom and its subsidiaries (the "Group") as of 31 December 2003 and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the year then ended. These financial statements as set out on pages 3 to 43 are the responsibility of the Group's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2003, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.
4. Without qualifying our opinion, we draw your attention to Note 30 to the consolidated financial statements. The Government of the Russian Federation is the principal shareholder of the Group and governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

Moscow, Russian Federation
30 June 2004

OAO GAZPROM
IFRS CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2003
(In millions of Russian Roubles)

Notes		31 December 2003	31 December 2002
	Assets		
	Current assets		
6	Cash and cash equivalents	71,396	58,354
6	Restricted cash	33,743	39,581
7	Short-term investments	57,069	28,895
8	Accounts receivable and prepayments	234,929	192,042
9	Inventories	111,330	88,561
4	VAT recoverable	85,909	73,596
	Other current assets	6,086	4,130
		600,462	485,159
	Non-current assets		
10	Property, plant and equipment	1,973,781	1,855,276
5,11,30	Investments in associated undertakings	79,346	84,875
12	Long-term accounts receivable and prepayments	70,956	72,666
13	Other non-current assets	39,542	41,886
		2,163,625	2,054,703
5	Total assets	2,764,087	2,539,862
	Liabilities and equity		
	Current liabilities		
14	Accounts payable and accrued charges	124,273	95,840
15	Taxes payable	103,799	106,891
16	Short-term borrowings and current portion of long-term borrowings	170,622	184,823
4	Short-term promissory notes payable	27,433	41,384
		426,127	428,938
	Non-current liabilities		
17	Long-term borrowings	303,755	248,603
4	Long-term promissory notes payable	13,715	20,218
15	Restructured tax liabilities	6,111	10,592
20	Provisions for liabilities and charges	34,880	21,989
18	Deferred tax liabilities	96,823	63,019
	Other non-current liabilities	12,753	24,454
		468,037	388,875
5	Total liabilities	894,164	817,813
29	Minority interest	14,793	10,177
	Shareholders' equity		
21	Share capital	325,194	325,194
21	Treasury shares	(33,889)	(30,367)
21	Retained earnings and other reserves	1,563,825	1,417,045
	Total shareholders' equity	1,855,130	1,711,872
	Total liabilities and equity	2,764,087	2,539,862

A.B. Miller
Chairman of the Management Committee
30 June 2004

E.A. Vasilieva
Chief Accountant
30 June 2004

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

OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2003
(In millions of Russian Roubles)

Notes		Year ended 31 December 2003	2002
5, 22	Sales	819,753	644,687
5, 23	Operating expenses	(593,415)	(496,713)
5	**Operating profit**	**226,338**	**147,974**
	Exchange gains	55,564	23,553
	Exchange losses	(40,424)	(32,988)
	Interest income	15,295	10,636
16, 17	Interest expense	(32,301)	(29,265)
3	Monetary gain	-	31,380
15, 24	Gains on and extinguishment of restructured liabilities	4,007	13,908
	Net monetary effects and financing items	2,141	17,224
11	Share of net income of associated undertakings	3,478	4,285
19	Gains (losses) on available-for-sale investments	5,017	(3,729)
	Profit before profit tax and minority interest	**236,974**	**165,754**
18	Current profit tax expense	(42,368)	(54,187)
18	Deferred profit tax expense	(32,449)	(81,945)
18	Profit tax expense	(74,817)	(136,132)
	Profit before minority interest	**162,157**	**29,622**
29	Minority interest	(3,062)	(667)
	Net profit	**159,095**	**28,955**
26	**Basic and diluted earnings per share (in Roubles)**	**8.02**	**1.39**

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OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2003
(In millions of Russian Roubles)

Notes		Year ended 31 December 2003	2002
	Operating activities		
27	**Net cash provided by operating activities**	**141,846**	**160,111**
	Investing activities		
	Capital expenditures	(144,370)	(141,124)
	Net change in loans made	75	(5,470)
	Interest received	13,177	10,002
10	Interest paid and capitalised	(13,807)	(12,998)
	Cash in subsidiaries acquired (disposed of)	131	(4,058)
	Acquisition of subsidiaries	(802)	(6,159)
	Change in investments in associated undertakings	5,360	7,917
	Change in other long-term investments	(4,927)	(8,798)
	Net cash used for investing activities	**(145,163)**	**(160,688)**
	Financing activities		
17	Proceeds from long-term borrowings (including current portion)	144,387	115,570
17	Repayment of long-term borrowings (including current portion)	(75,005)	(80,999)
	Sale of promissory notes	-	17,162
	Redemption of promissory notes	(7,751)	(17,615)
17	Net (redemption of) proceeds from issuance of bonds	(4,772)	4,735
16	Net (repayment of) proceeds from short-term borrowings	(13,551)	2,950
21	Dividends paid	(8,479)	(10,328)
	Interest paid	(19,204)	(22,379)
21	Purchases of treasury shares	(72,122)	(45,490)
21	Sales of treasury shares	68,214	38,784
6	Change in cash restricted for borrowings	5,838	627
	Net cash provided by financing activities	**17,555**	**3,017**
	Effect of exchange rate changes on cash and cash equivalents	(1,196)	8,099
	Effect of inflation accounting on cash and cash equivalents	-	(3,898)
	Increase in cash and cash equivalents	**13,042**	**6,641**
	Cash and cash equivalents, at the beginning of reporting period	58,354	51,713
	Cash and cash equivalents, at the end of reporting period	**71,396**	**58,354**

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OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2003
(In millions of Russian Roubles)

Notes		Number of shares outstanding (billions)	Share capital	Treasury shares	Retained earnings and other reserves	Total shareholders' equity
	Balance as of 31 December 2001	21.0	325,194	(20,872)	1,399,391	1,703,713
	Net income	-	-	-	28,955	28,955
21	Net treasury share transactions	(1.2)	-	(9,495)	(1,425)	(10,920)
21	Translation differences	-	-	-	2,052	2,052
21	Return of social assets to governmental authorities	-	-	-	(2,133)	(2,133)
21	Dividends	-	-	-	(9,795)	(9,795)
	Balance as of 31 December 2002	19.8	325,194	(30,367)	1,417,045	1,711,872
	Net income	-	-	-	159,095	159,095
21	Net treasury share transactions	(0.0)	-	(3,522)	(347)	(3,869)
21	Translation differences	-	-	-	1,101	1,101
21	Return of social assets to governmental authorities	-	-	-	(4,610)	(4,610)
21	Dividends	-	-	-	(8,459)	(8,459)
	Balance as of 31 December 2003	19.8	325,194	(33,889)	1,563,825	1,855,130

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1 NATURE OF OPERATIONS

OAO Gazprom and its subsidiaries (the "Group") operate one of the largest gas pipeline systems in the world and are responsible for substantially all gas production and high pressure gas transportation in the Russian Federation. The Group is a major exporter of gas to European countries.

The Group is involved in the following principal activities:

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

The weighted average number of full time employees during 2003 and 2002 was 391 thousand and 323 thousand, respectively.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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.

3 BASIS OF PRESENTATION

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

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

The consolidated financial statements of the Group are prepared under the historical cost convention except as described in Note 4. The preparation of consolidated financial statements in conformity with IFRS requires management to make prudent estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Estimates have principally been made in respect to fair values of financial instruments, the impairment provisions, deferred profits taxes and the provision for impairment of receivables. Actual results could differ from these estimates.

Accounting for the effect of inflation

Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of presentation in accordance with IFRS included the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, no adjustments for the effects of changes in general purchasing power have been made for the year ended 31 December 2003.

(In millions of Russian Roubles)

3 BASIS OF PRESENTATION (continued)

Corresponding figures, for the year ended 31 December 2002, were restated for the changes in the general purchasing power of the RR as of 31 December 2002. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian State Committee on Statistics ("Goscomstat"), and from indices obtained from other sources for years prior to 1992. The indices used to restate corresponding figures, based on 1988 prices (1988 = 100) for the five years ended 31 December 2002, and the respective conversion factors, are:

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

The main guidelines followed in restating the corresponding figures were:

- All corresponding amounts were stated in terms of the measuring unit current as of 31 December 2002;
- Monetary assets and liabilities held as of 31 December 2002 were not restated because they were already expressed in terms of the monetary unit current as of 31 December 2002;
- Non-monetary assets and liabilities (those balance sheet items that were not expressed in terms of the monetary unit current as of 31 December 2002) and components of shareholders' equity were restated from their historical cost by applying the change in the general price index from the date the non-monetary item originated to 31 December 2002;
- All items in the statement of operations and cash flows were restated by applying the change in the general price index from the dates when the items were initially transacted to 31 December 2002;
- Gains or losses that arose as a result of holding monetary assets and liabilities for the reporting periods ended 31 December 2002 were included in the statement of operations as a monetary gain or loss.

Reclassifications

Certain reclassifications have been made to prior year balances to conform to the current year presentation. Long-term accounts receivable and prepayments as of 31 December 2002 have been increased by RR 22,930 as a result of a reclassification of South Pars from other long-term investments, which are now included within other non-current assets (see Note 12). Current assets and liabilities as of 31 December 2002 have been increased by RR 59,163 in order to present deferred VAT on a gross rather than a net basis (see Note 4.7).

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Group accounting

Subsidiary undertakings

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Associated undertakings

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

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

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

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

4.2 Investments

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

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with fixed maturity that the management of the Group companies has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets. There were no such investments as of 31 December 2003 and 2002. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in fair value, are classified as available-for-sale. These are included in non-current assets unless management has the expressed intention of holding the investments for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

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

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Goodwill

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

4.4 Joint ventures

Joint ventures are contractual agreements whereby two or more parties undertake economic activity, which is subject to joint control. Joint ventures are accounted for using the proportionate consolidation method, unless it involves the establishment of a jointly controlled entity, in which case the equity method is applied.

4.5 Cash and cash equivalents

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

4.6 Accounts receivable

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

4.7 Value added tax

Value added taxes related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT recoverable and deferred VAT payable) is recognised on a gross basis and disclosed separately as a current asset and liability, except for VAT related to assets under construction included within other non-current assets. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

4.8 Inventories

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

4.9 Property, plant and equipment

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

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

(In millions of Russian Roubles)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Interest costs on borrowings are capitalised as part of the cost of assets under construction during the period of time that is required to construct and prepare the asset for its intended use.

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

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

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

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

4.10 Impairment of assets

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

4.11 Borrowings

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

4.12 Deferred tax

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

4.13 Foreign currency transactions

Monetary assets and liabilities held by the Group as of 31 December 2003 and 2002 and denominated in foreign currencies are translated into Roubles at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised as exchange gains or losses in the consolidated statement of income.

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

The official US dollar to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 29.45 and 31.78 as of 31 December 2003 and 2002, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 36.82 and 33.11 as of 31 December 2003 and 2002, respectively.

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

4.14 Provisions for liabilities and charges

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

4.15 Shareholders' equity

Treasury shares

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

Dividends

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

4.16 Revenue recognition

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

4.17 Mutual cancellation and other non-cash transactions

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

Approximately, 17% and 18% of accounts receivable settled during the years ended 31 December 2003 and 2002, respectively, were settled via mutual settlements or other non-cash settlements .

Non-cash transactions have been excluded from the cash flow statement, so investing activities, financing activities and the total of operating activities represent actual cash transactions (see Note 27).

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

The Group's short-term promissory notes payable had average interest rates ranging from 5.3% to 15.1% and from 12.0% to 25.0% for the years ended 31 December 2003 and 2002, respectively. The Group's long-term promissory notes payable had average interest rates ranging from 6.3% to 16.3% and from 15.0% to 26.0% for the years ended 31 December 2003 and 2002, respectively.

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

4.18 Interest

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

4.19 Research and development

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Employee benefits

Pension and other post-retirement benefits

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

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

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

Social expenses

The Group incurs employee costs related to the provision of benefits such as health and social infrastructure and services. These amounts principally represent an implicit cost of employing production workers and, accordingly, are charged to operating expenses in the consolidated statement of income.

4.21 Financial instruments

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

Accounting for derivative financial instruments

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

Fair value disclosure

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

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

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

4.22 Recent accounting pronouncements

During the period December 2003 to March 2004, the IASB revised 17 of its standards and issued 4 new standards. These standards are effective for accounting periods commencing on or after 1 January 2005 but may be adopted early. The Group has not early adopted these revised and new standards in preparing these consolidated financial statements.

(In millions of Russian Roubles)

5 SEGMENT INFORMATION

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

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

	Production	Refining	Transport	Distribution	Other	Total
31 December 2003						
Segment assets	657,779	71,707	1,246,597	181,494	315,933	2,473,510
Associated undertakings	1,289	1,311	58,018	9,233	9,495	79,346
Unallocated assets						306,066
Inter-segment eliminations						(94,835)
Total assets						2,764,087
Segment liabilities	32,855	26,539	61,536	80,907	28,379	230,216
Unallocated liabilities						758,783
Inter-segment eliminations						(94,835)
Total liabilities						894,164
Capital additions for the period	102,778	20,002	83,826	7,987	17,191	231,784
Depreciation	30,486	3,779	60,617	641	4,125	99,648
Charge (reversal) of impairment provisions and other provisions	7,994	9,327	(4,167)	2,842	9,617	25,613
Unallocated impairment provisions and other provisions						3,213
Total impairment provisions and other provisions						28,826
31 December 2002						
Segment assets	600,171	47,439	1,228,742	141,798	259,006	2,277,156
Associated undertakings	-	5,607	61,508	8,333	9,427	84,875
Unallocated assets						296,613
Inter-segment eliminations						(118,782)
Total assets						2,539,862
Segment liabilities	25,201	14,880	49,169	112,033	32,134	233,417
Unallocated liabilities						703,178
Inter-segment eliminations						(118,782)
Total liabilities						817,813
Capital additions for the period	78,248	9,832	78,607	2,638	8,831	178,156
Depreciation	28,436	2,553	57,624	567	4,274	93,454
Impairment provisions and other provisions	2,676	8,009	15	1,476	1,732	13,908

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

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

(In millions of Russian Roubles)

5 SEGMENT INFORMATION (continued)

	Production	Refining	Transport	Distribution	Other	Total
Year ended 31 December 2003						
Segment revenues						
Inter-segment sales	100,888	17,859	224,459	25,207	4,516	372,929
External sales	4,352	92,180	28,226	648,663	46,332	819,753
Total segment revenues	105,240	110,039	252,685	673,870	50,848	1,192,682
Segment expenses						
Inter-segment expenses	(2,965)	(17,602)	(32,157)	(320,205)	-	(372,929)
External expenses	(94,509)	(85,318)	(187,638)	(160,909)	(53,355)	(581,729)
Total segment expenses	(97,474)	(102,920)	(219,795)	(481,114)	(53,355)	(954,658)
Segment result	7,766	7,119	32,890	192,756	(2,507)	238,024
Unallocated operating expenses						(11,686)
Operating profit						226,338
Share of net income (losses) of associated undertakings	339	-	1,983	1,505	(349)	3,478
Year ended 31 December 2002						
Segment revenues						
Inter-segment sales	112,927	16,974	197,628	18,057	-	345,586
External sales	2,601	56,647	18,028	526,437	40,974	644,687
Total segment revenues	115,528	73,621	215,656	544,494	40,974	990,273
Segment expenses						
Inter-segment expenses	(1,626)	(15,330)	(20,754)	(307,876)	-	(345,586)
External expenses	(86,783)	(55,231)	(157,377)	(141,241)	(47,360)	(487,992)
Total segment expenses	(88,409)	(70,561)	(178,131)	(449,117)	(47,360)	(833,578)
Segment result	27,119	3,060	37,525	95,377	(6,386)	156,695
Unallocated operating expenses						(8,721)
Operating profit						147,974
Share of net (losses) income of associated undertakings	-	(1,529)	2,533	2,076	1,205	4,285

The inter-segment revenues mainly consist of:

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

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

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

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

(In millions of Russian Roubles)

6 CASH AND CASH EQUIVALENTS

Balances included within cash and cash equivalents in the consolidated balance sheet represent cash on hand and balances with banks. Included within restricted cash are balances of cash and cash equivalents totalling RR 24,330 and RR 32,625 as of 31 December 2003 and 31 December 2002, respectively, which are restricted as to withdrawal under the terms of certain borrowings. In addition, restricted cash comprises cash balances of RR 9,413 and RR 6,956 as of 31 December 2003 and 31 December 2002, respectively, in subsidiary banks, which are restricted as to withdrawal under banking regulations.

7 SHORT-TERM INVESTMENTS

	31 December	
	2003	2002
Trading investments	33,956	14,143
Available-for-sale investments	23,113	14,752
	57,069	28,895

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

Available-for-sale investments primarily comprise promissory notes of third parties maturing within twelve months of the balance sheet date.

8 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December	
	2003	2002
Trade receivables (net of impairment provision of RR 94,404 and RR 94,541 as of 31 December 2003 and 2002, respectively)	117,868	113,990
Prepayments and advances (net of impairment provision of RR 5,110 and RR 7,206 as of 31 December 2003 and 2002, respectively)	47,953	34,026
Other receivables (net of impairment provision of RR 31,087 and RR 25,459 as of 31 December 2003 and 2002, respectively)	69,108	44,026
	234,929	192,042

The estimated fair value of accounts receivable, excluding prepayments and advances, is RR 178,211 and RR 148,399 as of 31 December 2003 and 2002, respectively.

RR 62,079 and RR 62,173 of trade receivables, net of impairment provision, are denominated in foreign currencies, mainly US dollar and Euro, as of 31 December 2003 and 2002, respectively.

As of 31 December 2003 and 2002 other receivables include RR 47,918 and RR 24,843, respectively, relating to the operations of AB Gazprombank (ZAO). These balances mainly represent deposits with other banks and loans issued to customers at commercial rates based on credit risks and maturities.

As of 31 December 2003 the average year-end interest rate on banking deposits and loans ranged from 3.6% to 15.3% on balances denominated in Russian Roubles and from 1.5% to 7.7% on balances denominated in foreign currencies. As of 31 December 2002 the average year-end interest rate on banking deposits and loans ranged from 9.2% to 21.4% on balances denominated in Russian Roubles and from 2.0% to 13.0% on balances denominated in foreign currencies.

As of 31 December 2003 and 2002, AB Gazprombank (ZAO) had pledged deposits with banks and other financial institutions of RR 2,792 and RR 7,736, respectively. These are pledged as collateral for borrowings received by OAO Gazprom and credit exposures of Altalanos Ertekforgalmi Bank Rt ("AEB") (see Note 30).

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

(In millions of Russian Roubles)

9 INVENTORIES

	31 December 2003	31 December 2002
Gas	55,483	45,826
Materials and supplies (net of an obsolescence provision of RR 8,687 and RR 11,792 as of 31 December 2003 and 2002, respectively)	41,653	35,724
Goods for resale (net of an obsolescence provision of RR 74 and RR 1,195 as of 31 December 2003 and 2002, respectively)	8,451	4,061
Refined products	5,743	2,950
	111,330	88,561

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

10 PROPERTY, PLANT AND EQUIPMENT

	Pipelines	Wells and production equipment	Machinery and equipment	Buildings and roads	Total operating assets	Social assets	Assets under construction	Total
As of 31.12.01								
Cost	1,276,273	426,358	552,690	688,092	2,943,413	128,108	175,154	3,246,675
Accumulated depreciation	(587,129)	(203,827)	(334,428)	(308,027)	(1,433,411)	(30,260)	-	(1,463,671)
Net book value at **31.12.01**	**689,144**	**222,531**	**218,262**	**380,065**	**1,510,002**	**97,848**	**175,154**	**1,783,004**
Depreciation	(36,719)	(12,606)	(21,891)	(23,663)	(94,879)	(3,719)	-	(98,598)
Additions	-	107	233	1,203	1,543	6	165,812	167,361
Acquisition of subsidiaries	613	1,743	2,025	3,172	7,553	100	3,142	10,795
Transfers	49,112	25,130	38,922	29,861	143,025	755	(143,780)	-
Disposals	(662)	(440)	(2,537)	(2,598)	(6,237)	(2,887)	(5,045)	(14,169)
Release of prior impairment provision	-	-	-	-	-	-	6,883	6,883
Net book value at **31.12.02**	**701,488**	**236,465**	**235,014**	**388,040**	**1,561,007**	**92,103**	**202,166**	**1,855,276**
As of 31.12.02								
Cost	1,325,336	453,275	592,524	721,457	3,092,592	124,654	202,166	3,419,412
Accumulated depreciation	(623,848)	(216,810)	(357,510)	(333,417)	(1,531,585)	(32,551)	-	(1,564,136)
Net book value at **31.12.02**	**701,488**	**236,465**	**235,014**	**388,040**	**1,561,007**	**92,103**	**202,166**	**1,855,276**
Depreciation	(36,809)	(12,967)	(22,631)	(24,361)	(96,768)	(3,449)	-	(100,217)
Additions	186	174	700	570	1,630	134	212,195	213,959
Acquisition of subsidiaries	760	1,460	5,629	6,975	14,824	712	2,289	17,825
Transfers	65,496	36,444	48,256	51,640	201,836	4,116	(205,952)	-
Disposals	(807)	(238)	(2,424)	(1,649)	(5,118)	(5,724)	(4,324)	(15,166)
(Charge for) release of impairment provision	(444)	(304)	(1,060)	(177)	(1,985)	-	4,089	2,104
Net book value at **31.12.03**	**729,870**	**261,034**	**263,484**	**421,038**	**1,675,426**	**87,892**	**210,463**	**1,973,781**
As of 31.12.03								
Cost	1,390,150	490,790	639,848	776,682	3,297,470	122,272	210,463	3,630,205
Accumulated depreciation	(660,280)	(229,756)	(376,364)	(355,644)	(1,622,044)	(34,380)	-	(1,656,424)
Net book value at **31.12.03**	**729,870**	**261,034**	**263,484**	**421,038**	**1,675,426**	**87,892**	**210,463**	**1,973,781**

(In millions of Russian Roubles)

10 PROPERTY, PLANT AND EQUIPMENT (continued)

At each balance sheet date management assesses whether there is any indication that the recoverable value has declined below the carrying value of the property, plant and equipment. As a result of management's assessment of the recoverable amount, assets under construction are presented net of a provision for impairment of RR 91,481 and RR 95,570 at 31 December 2003 and 2002, respectively. The provision for impairment of assets under construction primarily relates to projects that have been indefinitely suspended and currently excluded from the Group's investment program.

As a result of management's reassessment of gas condensate reserves and therefore, of the recoverable amount of property, plant and equipment of one of the Group's production subsidiaries, OAO Vostokgazprom, an impairment provision in the amount of RR 1,985 was recorded for the year ended 31 December 2003. The provision relates to the Severo-Vasynganskoe gas condensate field. Management consider individual gas condensate fields of OAO Vostokgazprom as separate cash generating units and applied a discount rate of 9% to estimate the recoverable value of assets through discounted cash flows.

Included in additions above is capitalized interest of RR 13,807 and RR 13,012 for the years ended 31 December 2003 and 2002, respectively. Capitalization rates of 6.8% and 7.2% were used representing the weighted average actual borrowing cost of the relevant borrowings for the years ended 31 December 2003 and 2002, respectively.

Included in the property, plant and equipment above are fully depreciated assets which are still in service with the gross cost of RR 687,364 and RR 637,970 as of 31 December 2003 and 2002, respectively. Included in additions are non-cash additions of RR 42,469 and RR 42,639 for the years ended 31 December 2003 and 2002, respectively.

Depreciation includes RR 610 and RR 746 for the years ended 31 December 2003 and 2002, respectively, which is considered a cost of self-constructed assets and thus capitalized rather than expensed in the consolidated statement of income. RR 19,304 and RR 19,979 of depreciation for the years ended 31 December 2003 and 2002, respectively, is capitalized as a component of gas inventories and will be expensed in the consolidated statement of income when the gas is sold.

Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatisation with a net book value of RR 35,047 and RR 40,526 as of 31 December 2003 and 2002, respectively.

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

11 INVESTMENTS IN ASSOCIATED UNDERTAKINGS

		31 December	
Notes		**2003**	**2002**
30	EuRoPol GAZ S.A.	35,377	38,502
30	WINGAS GmbH	20,069	21,360
30	AEB	4,290	3,996
30	OAO Stroytransgaz	3,488	-
30	ZAO Armrosgazprom	3,170	3,276
	Other (net of provision for impairment of RR 8,831 and RR 8,789 as of 31 December 2003 and 2002, respectively)	12,952	17,741
		79,346	84,875

(In millions of Russian Roubles)

11 INVESTMENTS IN ASSOCIATED UNDERTAKINGS (continued)

	31 December 2003	31 December 2002
Balance at the beginning of the reporting period	84,875	90,085
Share of income before tax	5,763	6,327
Share of profit tax expense	(2,285)	(2,042)
Share of net income	3,478	4,285
Reduction in loans and other receivables	(5,129)	(7,113)
Dividends received from associated undertakings	(1,133)	(1,189)
Translation differences	(111)	(190)
Net disposals	(2,634)	(1,003)
Balance at the end of the reporting period	79,346	84,875

Principal associated undertakings

Associated undertaking	Country	Nature of operations	% of ordinary shares held as of 31 December 2003	2002
ZAO Agrochemical Corporation Azot	Russia	Sale of agricultural chemicals	47	46
ZAO Armrosgazprom	Armenia	Gas transportation and distribution	45	45
WINGAS GmbH	Germany	Gas transportation and distribution	35	35
AEB	Hungary	Banking	26	26
BSPC	Netherlands	Construction and gas transportation	50	50
EuRoPol GAZ S.A.	Poland	Gas transportation and distribution	48	48
Debis Energy GmbH	Germany	Gas distribution	-	49
GASA – Zarubezhgas Import-Export GmbH	Germany	Gas distribution	30	30
Gas und Warenhandels GmbH	Austria	Gas distribution	50	50
Gasym Oy	Finland	Gas transportation and distribution	25	25
ZAO KazRosGaz	Kazakhstan	Gas transportation and distribution	50	38
Latvias Gaze	Latvia	Gas transportation and distribution	25	25
AO Moldovagaz	Moldova	Gas transportation and distribution	50	50
Panrusgaz	Hungary	Gas distribution	40	31
Progress Gaz Trading	Yugoslavia	Gas distribution	25	25
Prometheus Gas	Greece	Gas distribution	50	50
Promgaz S.P.A.	Italy	Gas distribution	50	50
Slovrusgaz	Slovakia	Gas distribution	50	50
Stella Vitae	Lithuania	Gas transportation and distribution	30	30
ZAO Stimul	Russia	Production of oil and gas condensate	38	38
OAO Stroytransgaz	Russia	Construction	26	-
Turusgaz	Turkey	Gas distribution	45	45
Fragaz	France	Gas distribution	50	50

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 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 and approximates the fair value of purchased net assets. 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 associated undertakings.

(In millions of Russian Roubles)

11 INVESTMENTS IN ASSOCIATED UNDERTAKINGS (continued)

In April 2003 the Group completed the acquisition of a 25.9% interest in the ordinary shares of OAO Stroytransgaz and accordingly the Group's investment was classified as an investment in an associated undertaking. The consideration paid, with an aggregated fair value of RR 3,336, consisted primarily of promissory notes and cash. The fair value of consideration paid approximated the fair value of net assets acquired. In August 2003 the Group acquired 15.54% of preference 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 (see Note 30).

12 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2003	31 December 2002
Long-term accounts receivable and prepayments (net of impairment provision of RR 8,838 and RR 7,636 as of 31 December 2003 and 2002, respectively)	49,062	50,552
Advances for assets under construction (net of impairment provision of RR 1,398 and RR 988 as of 31 December 2003 and 2002, respectively)	21,894	22,114
	70,956	72,666

Long-term accounts receivable and prepayments include amounts due from South Pars of RR 16,868 and RR 22,930, net of impairment provision of RR 2,038 as of 31 December 2003 and 2002. South Pars is a contractual arrangement with Total South Pars and Parsi International Ltd. established in 1997 to provide services to the National Iranian Oil Company in relation to the development of the South Pars gas and condensate field in Iran.

The estimated fair value of long-term accounts receivable, excluding prepayments, is RR 45,156 and RR 42,282 as of 31 December 2003 and 2002, respectively.

13 OTHER NON-CURRENT ASSETS

	31 December 2003	31 December 2002
VAT related to assets under construction	17,827	14,419
Available-for-sale investments (net of provision for impairment of RR 16,266 and RR 23,796 as of 31 December 2003 and 2002, respectively)	10,584	12,868
Other non-current assets	11,131	14,599
	39,542	41,886

14 ACCOUNTS PAYABLE AND ACCRUED CHARGES

	31 December 2003	31 December 2002
Trade payables	37,157	32,783
Accounts payable for acquisition of property, plant and equipment	36,906	32,361
Advances received	3,862	3,867
Accruals and deferred income	1,550	1,241
Other payables	44,798	25,588
	124,273	95,840

Other payables include RR 16,960 and RR 19,634 related to the operations of the Group's banking subsidiaries as of 31 December 2003 and 2002, respectively. These balances mainly represent amounts due to the banks' customers with terms at commercial rates, varying by maturity of deposit, ranging from 2.0% to 9.0% per annum as of 31 December 2003 and from 2.2% to 12.5% per annum as of 31 December 2002.

(In millions of Russian Roubles)

14 ACCOUNTS PAYABLE AND ACCRUED CHARGES (continued)

In the years ended 31 December 2003 and 2002 approximately 24% and 31% of the Group's settlements of accounts payable and accrued charges were settled via non-cash settlements.

RR 8,229 and RR 2,182 of trade payables are denominated in foreign currency, mainly the US dollar, as of 31 December 2003 and 2002, respectively.

15 TAXES PAYABLE

	31 December	
	2003	**2002**
VAT	55,340	63,048
Excise tax	31,086	28,052
Tax penalties and interest	8,940	12,411
Profit tax	3,745	3,027
Natural resources production tax	1,296	80
Road users tax	794	4,400
Royalty and mineral restoration taxes	442	470
Other taxes	8,267	5,995
	109,910	117,483
Less: long term portion of restructured tax liabilities	(6,111)	(10,592)
	103,799	106,891

Substantially all accrued taxes above that are overdue, except restructured tax liabilities (see below) incur interest at a rate of 1/300 of the refinancing rate of the Central Bank of the Russian Federation per day (16% and 21% per annum as of 31 December 2003 and 2002, respectively). Interest does not accrue on tax penalties and interest.

Included within VAT payable as of 31 December 2003 and 2002 is RR 50,928 and RR 59,163, respectively, of deferred VAT that is only payable to the tax authorities when the underlining receivable is recovered or written off.

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 No.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.

The restructuring resulted in the recognition of a gain recorded in the consolidated statement of income as part of net monetary effects and financing items in the amount of nil and RR 1,349 for the years ended 31 December 2003 and 2002, respectively (see Note 24). The gain is based on the difference between the estimated fair value of the new restructuring agreement (based on discounted future cash flows) and the carrying amount of the old payables. Failure to pay the restructured taxes as they become due would result in reinstatement of the original liability.

The amortization of the discount (representing the difference between the carrying amount of the old payables and the discounted value of the restructured taxes) is recorded within interest expense and amounted to RR 2,879 and RR 4,650 for the years ended 31 December 2003 and 2002, respectively.

(In millions of Russian Roubles)

15 TAXES PAYABLE (continued)

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

	31 December 2003	31 December 2002
Between one and two years	1,245	4,667
Between two and five years	8,258	7,067
After five years	1,877	10,258
	11,380	21,992
Less: unamortized discount on restructured taxes	(5,269)	(11,400)
	6,111	10,592

The total amortised cost of restructured tax liabilities were RR 8,075 and RR 13,071 as of 31 December 2003 and 2002, respectively.

Interest on restructured tax liabilities is accrued quarterly based on outstanding restructured tax liabilities, applying the refinancing rate of the Central Bank of the Russian Federation. RR 2,332 and RR 6,622 of the restructured tax liabilities as of 31 December 2003 and 2002, respectively, accrue interest at one-tenth of the official rate of the Central Bank of the Russian Federation as of the date of the Government Resolution (5.5% p.a.).

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 tax interest and fines. The additional gain recorded upon extinguishment of restructured tax interest and fines is recorded in the consolidated statement of income as a part of net monetary effects and financing items in the amount of RR 4,007 and RR 9,435 for the years ended 31 December 2003 and 2002 (see Note 24).

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

	31 December 2003	31 December 2002
Short-term borrowings:		
RR denominated borrowings	25,905	41,370
Foreign currency denominated borrowings	49,950	45,690
	75,855	87,060
Current portion of long-term borrowings (see Note 17)	94,767	97,763
	170,622	184,823

Short-term RR denominated borrowings had average interest rates ranging from 8.8% to 16.5% and from 5.0% to 20.1% for the years ended 31 December 2003 and 2002, respectively. Short-term foreign currency denominated borrowings had average interest rates ranging from 4.3% to 10.8% and from 5.0% to 15.5% for the years ended 31 December 2003 and 2002, respectively.

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

As of 31 December 2002 short-term borrowings include RR 4,019 of coupon documentary bearer bonds issued by OAO Gazprom in 1999. The issue amounted to 3.0 million bonds, each with a nominal value of 1,000 roubles and a due date of 15 April 2003. During the years 2000 and 2001, the Group repurchased 577 thousand bonds. As of 31 December 2002 the bonds were resold to external parties and are included within short-term borrowings. In April 2003 the bonds were redeemed.

(In millions of Russian Roubles)

17 LONG-TERM BORROWINGS

	Currency	Due	31 December 2003	31 December 2002
Long-term borrowings payable to:				
Morgan Stanley AG	US dollar	2003-2013	53,199	-
Loan participation notes (issued September 2003)	Euro	2003-2010	37,593	-
Credit Lyonnais	US dollar	2001-2005	32,556	54,325
Eurobonds issued by AB Gazprombank (ZAO) in October 2003	US dollar	2003-2008	22,185	-
Salomon Brothers AG	US dollar	2002-2009	21,039	22,691
Dresdner Bank AG	US dollar	2001-2005	20,070	39,219
Bayerische Hypo-und Vereinsbank AG	US dollar	2002-2008	18,326	23,557
Intesa BCI	US dollar	2001-2007	16,423	23,959
Mannesmann (Deutsche Bank AG)	Euro	2001-2008	15,424	17,908
Depfa Bank	US dollar	2003-2008	15,116	-
Salomon Brothers AG	US dollar	2002-2007	14,974	16,158
Societe Generale	US dollar	2002-2008	9,183	10,348
Deutsche Bank AG	US dollar	2003-2006	8,878	-
Mizuho Bank (Fuji Bank)	US dollar	2000-2010	8,816	9,598
German banking consortium	Euro	2001-2007	7,889	8,872
International banking consortium	Euro	2003-2007	7,733	-
SACE	US dollar	2000-2013	7,503	7,435
WestLB AG	US dollar	2003-2005	6,335	-
ABN AMRO	US dollar	2002-2004	5,990	6,473
Eurobonds issued by AB Gazprombank (ZAO) in October 2002	Euro	2002-2005	5,547	4,625
Moscow Narodny Bank	US dollar	2001-2006	5,215	7,507
OAO Vneshtorgbank	US dollar	2001-2004	4,720	21,330
Bayerische Hypo-und Vereinsbank AG	Euro	2001-2006	4,642	6,037
OAO Alfa Bank	US dollar	2002-2004	4,426	4,776
International banking consortium	Euro	2001-2003	-	11,728
Eurobonds issued by AB Gazprombank (ZAO) in October 2001	Euro	2001-2003	-	6,167
Other long-term borrowings	Various	Various	44,740	43,653
Total long-term borrowings			398,522	346,366
Less: current portion of long-term borrowings			(94,767)	(97,763)
			303,755	248,603

	31 December 2003	31 December 2002
RR denominated borrowings (including current portion of RR 14,293 and RR 17,834 as of 31 December 2003 and 2002, respectively)	34,285	33,191
Foreign currency denominated borrowings (including current portion of RR 80,474 and RR 79,929 as of 31 December 2003 and 2002, respectively)	364,237	313,175
	398,522	346,366

Due for repayment:	31 December 2003	31 December 2002
Between one and two years	68,253	92,378
Between two and five years	109,521	132,010
After five years	125,981	24,215
	303,755	248,603

(In millions of Russian Roubles)

17 LONG-TERM BORROWINGS (continued)

Long-term borrowings include fixed rate loans with a carrying value of RR 247,763 and RR 120,134 and fair value of RR 275,788 and RR 120,010 as of 31 December 2003 and 2002, respectively. All other long-term borrowings have variable interest rates linked to LIBOR, and the carrying amounts approximate fair value.

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

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

	31 December 2003	31 December 2002
Fixed rate RR denominated long-term borrowings	15.00%	15.01%
Fixed rate foreign currency denominated long-term borrowings	8.48%	8.14%
Variable rate foreign currency denominated long-term borrowings	4.22%	4.68%

As of 31 December 2003 and 2002 long-term borrowings of RR 154,858 and RR 219,700, respectively, inclusive of current portion of long-term borrowings, are secured by revenues from export supplies of gas to Europe.

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

As of 31 December 2002 long-term bank borrowings included loans from Salomon Brothers AG received in 2003 in connection with the issuance of USD 700 million of Loan Participation Notes due 2009, with an interest rate of 10.5%. The Notes were issued by, but without recourse to, Salomon Brothers AG with the sole purpose of financing a loan to OAO Gazprom. These Loan Participation Notes have a put option exercisable on 21 October 2005. The estimated fair value of the put option is RR 476 and RR 766 as of 31 December 2003 and 2002.

18 PROFIT TAX

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

	Year ended 31 December 2003	Year ended 31 December 2002
Profit before profit tax and minority interest	236,974	165,754
Theoretical tax charge at a statutory rate (24% for the years ended 31 December 2003 and 2002, respectively)	(56,874)	(39,781)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Inflationary effects	-	(63,278)
Non-deductible expenses	(21,334)	(31,644)
Statutory tax concessions	-	-
Other non-temporary differences	3,391	(1,429)
Profit tax expense	(74,817)	(136,132)

Inflationary effects for the year ended 31 December 2002 principally include the impact of inflation on shareholders' equity, deferred tax assets and liabilities at the beginning of the reporting period and current profit tax expense.

Profit tax expense in the consolidated statement of income is stated net of RR 1,085 and RR 333 of tax attributable to gains arising on treasury share transactions for the year ended 31 December 2003 and 2002, respectively.

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

(In millions of Russian Roubles)

18 PROFIT TAX (continued)

	31 December 2003	Differences recognition and reversals	31 December 2002	Differences recognition and reversals	Effect of changes in tax legislation	Effect of deconsolida-tion of NRB	31 December 2001
Tax effects of taxable temporary differences:							
Property, plant and equipment	(98,753)	(31,748)	(67,005)	(74,436)	(30,171)	-	37,602
Accounts receivable	-	-	-	-	19,727	-	(19,727)
Investments	(1,138)	3,269	(4,407)	(6,741)	-	3,276	(942)
Inventories	(2,948)	(1,093)	(1,855)	(803)	-	-	(1,052)
	(102,839)	**(29,572)**	**(73,267)**	**(81,980)**	**(10,444)**	**3,276**	**15,881**
Tax effects of deductible temporary differences:							
Tax losses carryforward	4,505	(5,743)	10,248	10,248	-	-	-
Other deductible temporary differences	1,511	1,511	-	-	-	-	-
Total net deferred tax (liabilities) assets	**(96,823)**	**(33,804)**	**(63,019)**	**(71,732)**	**(10,444)**	**3,276**	**15,881**

Deferred tax assets and liabilities arise mainly from differences in the taxable and financial reporting bases of property, plant and equipment. These differences for property, plant and equipment are historically due to the fact that a significant proportion of the tax base is based upon independent appraisals, the most recent of which was recognised as of 1 January 2001, while the financial reporting base is historical cost restated for changes in the general purchasing power of the RR to 31 December 2002.

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

The revised tax depreciation lives also gave rise to current period tax losses in the statutory books of OAO Gazprom in 2002. Statutory entities can carry forward tax losses generated in an individual period for ten years, subject to a maximum utilization of 30% of the total amount of taxable profit each year. This resulted in a recognition of a deferred tax asset of RR 4,505 and RR 10,248 as of 31 December 2003 and 2002, respectively. RR 23,931 of tax losses carry forward were utilised in the year ended 31 December 2003. Management believes it is probable that the remaining losses will continue to be realized through offset against future taxable profit.

The difference between the amount of temporary differences recognition and reversals for the year ended 31 December 2003 and respective deferred profit tax expense recognised in the consolidated statement of income for the year ended 31 December 2003 arises from transactions with treasury shares that are recognised in the consolidated statement of changes in shareholders’ equity.

Tax losses and current tax assets of the different companies in the Group may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one company of the Group is not offset against a deferred tax liability of another company. As at 31 December 2003 and 2002 deferred tax assets in the amount of RR 933 and RR 1,883 have not been recorded for the deductible temporary differences for which it is not probable that sufficient taxable profit will be available to allow the benefit of that deferred tax asset to be utilised.

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 166,524 and RR 105,453 as of 31 December 2003 and 31 December 2002, respectively. A deferred tax liability on these temporary differences was not recognized because management controls the timing of the reversal of the temporary differences and believes that they will not reverse in the foreseeable future.

(In millions of Russian Roubles)

19 FINANCIAL INSTRUMENTS

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

	31 December 2003	31 December 2002
Unrealized fair value gains (losses), net	3,749	(4,828)
Realized gains on sale, net	1,268	1,099
Gains (losses) on available-for-sale investments, net	5,017	(3,729)

Derivative financial instruments

As of 31 December 2003 the Group's banking subsidiaries had outstanding contracts to purchase and sell precious metals and foreign currencies at the market price at the date of maturity. The Group expects to settle these contracts in the normal course of business. These instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions.

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

	31 December 2003		31 December 2002	
	Notional principal equivalents	**Fair value**	**Notional principal equivalents**	**Fair value**
Foreign exchange contracts				
Call options held – foreign	3,061	3,042	651	655
Call options written – foreign	(1,461)	(1,473)	-	-
Put options written – foreign	1,378	1,473	-	-
	2,978	**3,042**	**651**	**655**
Bullion forward contracts				
Assets foreign	140	143	-	-
Liabilities foreign	(244)	(252)	-	-
	(104)	**(109)**	**-**	**-**
Securities forward contracts				
Assets – foreign	-	-	166	166
Assets – domestic	-	-	637	708
Liabilities – domestic	-	-	(149)	(159)
	-	**-**	**654**	**715**

The maturities of all derivative financial instruments are less than one month. Subsequently all deals were settled in the normal course of business.

20 PROVISIONS FOR LIABILITIES AND CHARGES

Notes		31 December 2003	31 December 2002
	Provision for pension obligations	30,595	19,386
31	Provision for environmental liabilities	4,034	2,368
	Other	251	235
		34,880	21,989

Total expenses associated with pension obligations are included within operating expenses in the consolidated statement of income and amount to RR 11,827 and RR 5,813 for years ended 31 December 2003 and 2002, respectively.

(In millions of Russian Roubles)

20 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The amounts recognized in the balance sheet are as follows:

	31 December 2003	31 December 2002
Present value of obligations (unfunded)	56,762	49,034
Unrecognised actuarial losses	(24,696)	(28,095)
Unrecognised past service cost	(1,471)	(1,553)
Net liability	30,595	19,386

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

	Year ended 31 December 2003	Year ended 31 December 2002
Current service cost	1,761	1,261
Interest cost	6,647	3,392
Past service cost amortisation	82	-
Net actuarial losses	1,221	434
Vested prior service cost	2,116	726
Net expense recognised in the statement of income	11,827	5,813

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

	Year ended 31 December 2003	Year ended 31 December 2002
Net liability at the beginning of the reporting period	19,386	13,921
Net expense recognised in the consolidated statement of income	11,827	5,813
Benefits paid	(618)	(348)
Net liability at the end of the reporting period	30,595	19,386

Principal actuarial assumptions used (expressed as weighted average):

	31 December 2003	31 December 2002
Discount rate (nominal)	8%	13%
Future salary increases (nominal)	7%	9%
Employees average remaining working life (years)	17	19

21 SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR 325,194 as of 31 December 2003 and 2002 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 roubles.

Dividends

In 2003, the Group accrued and paid total dividends in the nominal amount of RR 0.40 per share in respect of 2002. In 2002, the Group accrued and paid final dividends for the year ended 31 December 2001 in the nominal amount of RR 0.44 per share.

In 2004 the Board of Directors recommended payment of a final dividend for the year ended 31 December 2003 in the amount of RR 0.69 per share. Because this decision was reached after the balance sheet date, the final dividend proposed in respect of 2003 has not been recognised in the consolidated balance sheet. The final dividend of RR 16,335 (including income tax on dividends in the amount of RR 1,151) will be paid prior to 31 December 2004.

(In millions of Russian Roubles)

21 SHAREHOLDERS' EQUITY (continued)

Treasury shares

As of 31 December 2003 and 2002, subsidiaries of OAO Gazprom held 3,841 and 3,841 million of the ordinary shares of OAO Gazprom. The Group management controls the voting rights of these shares.

As of 31 December 2002 voting rights for the 1,144 million ordinary shares of OAO Gazprom, held by a joint activity with OAO Stroytransgaz were controlled by the Group in accordance with the specific terms of the joint activity agreement. Accordingly, as of 31 December 2002, the Group's investment in the joint activity was recorded as an investment in treasury shares for accounting purposes and classified as a deduction from shareholders' equity, although they do not meet the Russian law definition of treasury shares. 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. As a result, the Group now owns and continues to control the votes for the 1,144 million of OAO Gazprom ordinary shares held by the joint activity.

Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of the Rouble as of 31 December 2003. Also, retained earnings and other reserves include translation differences of RR 1,101 and RR 2,052 arising on the translating of the net assets of foreign subsidiaries and associated undertakings as of 31 December 2003 and 2002, respectively.

Other reserves include a statutory fund for social assets, created at the time of privatisation in accordance with Russian legislation. From time to time, the Group negotiates to return certain of these assets to governmental authorities, and this process may continue. Social assets with a net book value of RR 4,610 and RR 2,133 have been transferred to governmental authorities during the years ended 31 December 2003 and 2002, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

The statutory accounting reports of the parent company, OAO Gazprom, are the basis for profit distribution and other appropriations. The basis of distribution is defined by legislation as the current year net profit, as calculated in accordance with RAR. For 2003, the statutory profit for the parent company was RR 142,623. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

22 SALES

	Year ended 31 December 2003	Year ended 31 December 2002
Gas sales (including excise tax and net of VAT and custom duties) to customers in:		
Russian Federation	206,094	159,642
Former Soviet Union (excluding Russian Federation)	53,591	61,506
Europe	547,381	433,085
Gross sales of gas	807,066	654,233
Excise tax	(154,051)	(125,195)
Net sales of gas	653,015	529,038
Sales of gas condensate and oil and gas products (net of sales taxes)	92,180	56,647
Gas transportation sales	28,226	18,028
Other revenues	46,332	40,974
	819,753	644,687

(In millions of Russian Roubles)

22 SALES (continued)

A significant part of the natural gas sold by the Group in Europe is transported through the territory of Ukraine. The existing contract with the major customer in Ukraine, the Group's largest FSU customer, stipulates that transit services provided to the Group in Ukraine are settled by gas sales. For the years ended 31 December 2003 and 2002 net gas sales to Ukraine in settlement of transit services were RR 26,604 (26.0 bcm) and RR 33,442 (26.2 bcm), respectively.

Included within gas transportation sales are sales to two significant customers, the Itera Group and Eural Trans Gas.

The Itera Group is a producer and distributor of gas in the Russian Federation and other former Soviet Union countries. Gas transportation sales (net of VAT) to companies of the Itera Group amounted to RR 7,462 (32 bcm) and RR 13,920 (61 bcm) for the years ended 31 December 2003 and 2002, respectively. Trade receivables in respect of gas transportation services supplied to the Itera Group amounted to RR 2,738 and RR 3,356 as of 31 December 2003 and 2002, respectively.

The Group also had gas sales in the Russian Federation (including excise tax and net of VAT) to companies of the Itera Group amounting to RR 6,388 (15.5 bcm) and RR 1,871 (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 2003 and 2002, respectively.

Eural Trans Gas is engaged in purchasing gas from Central Asia for resale to customers in Europe. Gas transportation sales to Eural Trans Gas, which commenced in January 2003, amounted to RR 14,759 (34.9 bcm) for the year ended 31 December 2003. Trade receivables in respect of gas transportation services supplied to Eural Trans Gas amounted to RR 2,971 as of 31 December 2003.

23 OPERATING EXPENSES

	Year ended 31 December	
	2003	**2002**
Transit costs	108,711	102,632
Staff costs	100,122	65,717
Depreciation	99,648	93,454
Materials	44,395	47,310
Repairs and maintenance	42,955	24,218
Taxes other than on income	35,088	43,975
Purchased gas	29,650	9,957
Impairment provisions and other provisions	28,826	13,908
Electricity	24,300	13,449
Processing services	16,243	13,226
Cost of goods for resale, including refined products	11,870	17,900
Social expenses	11,724	7,013
Research and development	6,083	4,464
Transportation services	5,684	3,423
Other	28,116	36,067
	593,415	496,713

Taxes other than on income consist of:

	Year ended 31 December	
	2003	**2002**
Natural resources production tax	19,644	20,485
Property tax	10,646	9,371
Road users tax	-	10,369
Other taxes	4,798	3,750
	35,088	43,975

(In millions of Russian Roubles)

22 OPERATING EXPENSES (continued)

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

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

- Road users tax was charged on sales by Group entities at the rate of 1.0%. An additional RR 2,261 of road users' tax was accrued in 2002 in respect of unpaid accounts receivable as of 31 December 2002 as the tax was abolished from 1 January 2003;

- Property tax is imposed at a maximum rate of 2.0% on the average annual net book value of fixed assets, intangible assets, inventory and on assets under construction which were not completed within contracted terms. Legislation provides for the exclusion of trunk pipelines from the taxable base.

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

24 GAINS ON AND EXTINGUISHMENT OF RESTRUCTURED LIABILITIES

	Year ended 31 December	
	2003	2002
Gain on extinguished restructured tax liabilities	4,007	9,435
Gain on other restructured liabilities	-	3,124
Gain on restructured tax liabilities	-	1,349
	4,007	13,908

During 2002 an amicable agreement was signed by OAO AK Sibur with its creditors to restructure its liabilities. The present value of RR and foreign currency denominated liabilities, discounted at 17.1% and 8.7%, respectively, was RR 10,373 compared to a nominal value of RR 13,211. The resulting decrease is accounted for as an extinguishment of liability and the gain of RR 3,124 was recognised in the consolidated statement of income for the year ended 31 December 2002. The increase of the carrying amount of the liability in subsequent years, as a result of the accretion of the discount, will be recognised in the statement of income as an interest expense.

25 RECONCILIATION OF RAR PROFIT TO IFRS NET PROFIT

	Year ended 31 December	
	2003	2002
RAR profit per consolidated statutory accounts	170,877	121,598
Effects of IFRS adjustments:		
Deferred tax expense	(4,229)	(82,242)
Transition period current profit tax expense	6,564	(20,203)
Net effect of additional taxes other than on income	(106)	(6,605)
Impairment provisions and other provisions	(14,813)	(6,883)
Monetary gain	-	31,380
Net effect on indexation of revenues and costs	-	18,593
Discount related to restructured tax and other liabilities	-	4,473
Difference in gains on extinguished restructured tax liabilities	(3,066)	(16,259)
Losses on available-for-sale investments	(2,198)	(4,806)
Gain from sale of treasury shares	(4,679)	(1,057)
Net decrease (increase) in depreciation charge	1,287	(3,596)
Derecognition of income related to penalties and interest	(125)	(4,264)
Other	9,583	(1,174)
IFRS net profit	159,095	28,955

(In millions of Russian Roubles)

26 EARNINGS PER SHARE

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

There were 19.8 billion and 20.8 billion weighted average shares outstanding for the years ended 31 December 2003 and 2002 respectively.

27 NET CASH PROVIDED BY OPERATING ACTIVITIES

	Year ended 31 December	
	2003	**2002**
Profit before profit tax and minority interest	236,974	165,754
Adjustments to net profit before profit tax		
Depreciation	99,648	93,454
Impairment provisions and other provisions	28,826	13,908
Net unrealised foreign exchange (gains) losses	(12,529)	14,474
Interest expense on borrowings and promissory notes	32,301	29,265
Gains on and extinguishment of restructured liabilities	(4,007)	(13,908)
Losses on disposal of property, plant and equipment	1,749	6,405
Monetary effects on non-operating balances	-	(53,750)
Interest income	(15,295)	(10,636)
Net increase in long-term assets	(10,759)	(4,054)
Net (decrease) increase in long-term liabilities	(22,116)	7,038
Non-cash additions to property, plant and equipment and other long-term investments	(33,107)	(44,399)
(Gains) losses on fair value adjustments for trading and available-for-sale investments	(3,749)	4,828
Share of net income from associated undertakings	(3,478)	(4,285)
Total effect of adjustments	57,484	38,340
	294,458	204,094
Changes in working capital		
(Increase) decrease in accounts receivable and prepayments	(47,308)	57,234
(Increase) decrease in inventories	(14,890)	5,582
(Increase) decrease in other current assets	(12,614)	6,436
Decrease in accounts payable and accrued charges, excluding interest, dividends and capital construction	(38)	(28,124)
Decrease in taxes payable (other than profit tax)	(2,925)	(40,616)
Increase in available-for-sale and trading investments	(26,741)	(9,365)
Total effect of working capital changes	(104,516)	(8,853)
Profit tax paid	(48,096)	(35,130)
Net cash provided by operating activities	**141,846**	**160,111**

(In millions of Russian Roubles)

27 NET CASH PROVIDED BY OPERATING ACTIVITIES (continued)

Total cash taxes paid:

	Year ended 31 December 2003	2002
Excise	150,449	128,778
VAT	51,878	39,131
Profit tax	48,096	35,130
Custom duties	34,696	27,606
Natural resources production tax	18,443	20,871
Property tax	9,904	5,660
Road users tax	4,111	11,628
Other	17,143	19,759
Total taxes paid	**334,720**	**288,563**

28 SUBSIDIARY UNDERTAKINGS

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

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

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

Other subsidiary undertakings, 100% owned

Company	Type of activity	Location
OOO Gazprominvestholding	Investing	Russia
OAO Gazprom-Media	Media	Russia
Gazprom Finance B.V.	Investing	Netherlands
Gazprom UK Ltd.	Investing	United Kingdom
Gazprom UK Trading Ltd.	Trading	United Kingdom
Zarubezhgaz Management und Beteiligungsgesellschaft GmbH (ZMB)	Gas distribution	Germany
Zarubezhgaz Erdgashandel GmbH (ZGG)	Gas distribution	Germany
Leadville Investments Ltd.	Investing	Cyprus

(In millions of Russian Roubles)

28 SUBSIDIARY UNDERTAKINGS (continued)

Other subsidiary undertakings, less than 100% owned

	Percent of share capital held as of 31 December		
	2003	**2002**	**Location**
Wintershall Erdgas Handelshaus GmbH (WIEH)	50	50	Germany
Wintershall Erdgas Handelshaus Zug AG (WIEE)	50	50	Romania
OAO Volgogradneftemash	51	51	Russia
OAO Vostokgazprom	84	84	Russia
OAO Gazavtomatika	49	49	Russia
OAO Gazenergoservice	51	51	Russia
AB Gazprombank (ZAO)	99	99	Russia
ZAO Gerosgaz	51	51	Russia
OAO Zapsibgazprom	77	77	Russia
ZAO Kostromatrubinvest – Volgorechensky Trubny Zavod	99	99	Russia
OAO Krasnoyarskgazprom	75	75	Russia
ZAO Purgaz	51	51	Russia
ZAO Rosshelf	53	53	Russia
OAO AK Sibur	78	51	Russia
ZAO AKB Sovfintrade	94	94	Russia
OAO Spetsgazavtotrans	51	51	Russia
OAO Sogaz	99	99	Russia
OAO TV Company NTV	69	65	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. Management have assessed that the fair value of consideration paid approximated the fair value of the underlying net assets received.

Joint activity with OAO NK Rosneft

The joint activity was established to develop the Arctic shelf (Schtokmanovskoye and Prirazlomnoye fields) in the Barents and Pechora Seas. From inception OAO Gazprom and ZAO Rosshelf, a 53% owned 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 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 agreement to provide OAO NK Rosneft with a 49.95% direct interest in the joint activity as recognition of its prior investment into the joint activity. 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.

(In millions of Russian Roubles)

28 SUBSIDIARY UNDERTAKINGS (continued)

Media companies

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

In July 2002 the Group acquired additional interests in ZAO Media-Most, in OAO TV Company NTV and in other media subsidiaries. Additionally, the Group acquired payables and promissory notes to third parties due by these companies. The consideration was partially settled in cash and partially through the forgiveness of debt owed to OAO Gazprom. As a result of this transaction the Group increased its interest in OAO TV Company NTV from 65.0% to 95.6% and in ZAO Media-Most from 14.3% to 38.6%. The Group has also increased its controlling interests in the other media subsidiaries. As of 31 December 2003 ZAO Media Most was under liquidation and accordingly, the Group classified its 38.6% interest as other long-term investments.

In October 2002 the Group signed a framework agreement to sell non-controlling interests in several media companies, including OAO TV Company NTV, to Eurofinance Group (as nominee), the consideration for which was partially settled in cash and partially through the settlement of certain debt obligations of ZAO Media-Most and its media companies. The disposed interests primarily comprised those acquired in July 2002. As a result, the Group's interest in OAO TV Company NTV reduced to 65.0%. Under the framework agreement, Eurofinance Group shall contribute cash and these acquired interests into a new media holding company, which will be controlled and majority-owned by OAO Gazprom. The Group's contribution into the new holding company will comprise the remaining interests in its media subsidiaries. Management does not believe that the financial effect of these transactions will be material to the Group. As of 31 December 2003 the Group continues to hold a controlling interest in the above media companies.

In January 2003 in accordance with an option provided for by the OAO TV Company NTV global depositary receipts (GDRs) purchase agreement dated 1 April 2001, the Group acquired the GDRs from the SmallCap World Fund Inc. 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%.

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, also including OAO Sibur – Tyumen, and thereby increased its controlling interest in the share capital of OAO AK Sibur from 50.7% to 75.7%. In respect of this acquisition the Group has issued the long-term promissory notes with a nominal value of RR 17,587 and an estimated fair value of approximately RR 6,770. In September 2003 the Group acquired an additional 2.4% interest in AK Sibur for RR 102. Fair values of the identifiable assets and liabilities of these companies have been determined on a provisional basis and might be subject to subsequent adjustments over the period to 31 December 2004. Any adjustments are not expected to be material to the Group's consolidated financial statements. Management does not believe there will be material goodwill arising from the transaction.

29 MINORITY INTEREST

	Year ended 31 December 2003	2002
Minority interest at the beginning of the reporting period	10,177	17,387
Minority interest share of net profit of subsidiary undertakings	3,062	667
Net change in minority interest as a result of acquisitions (disposals)	1,554	(7,877)
Minority interest at the end of the reporting period	14,793	10,177

30 RELATED PARTIES

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

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2003 are detailed below.

Government

The Government of the Russian Federation is the principal shareholder of the Group and directly owns approximately 38.37% of the issued shares of the Group. As of 31 December 2003 and 2002 the subsidiaries of the Group held 16.2% of OAO Gazprom shares through which they are entitled to vote as owners. State representatives also have the majority of seats on the Board of Directors. Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

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

Directors' remuneration

OAO Gazprom paid to members of the Board of Directors and Management Committee salary and bonuses of approximately RR 243 and RR 143 for the years ended 31 December 2003 and 2002, respectively. The salary and bonuses of members of the Board of Directors is subject to approval by the General Meeting of Shareholders. Salary and bonus compensation paid to members of the Management Committee is determined by the terms of annual employment contracts.

Associated undertakings

Included within associated undertakings (see Note 11) is the loan receivable from EuRoPol GAZ S.A., in the amount of RR 24,056 and RR 27,344 as of 31 December 2003 and 2002, respectively, issued by AB Gazprombank (ZAO), a subsidiary of the Group, at an interest rate of LIBOR + 2.6 %. Also included within associated undertakings as a component of the carrying amount are USD and euro denominated receivables from EuRoPol GAZ S.A. of RR 6,216 and RR 8,555 as of 31 December 2003 and 2002, respectively.

Associated undertakings include a loan receivable from WINGAS GmbH, in the amount of RR 14,830 and RR 14,331 as of 31 December 2003 and 2002, respectively. The interest rates vary for different loan tranches. As of 31 December 2003 and 2002 the average effective interest rate for the loan receivable from WINGAS GmbH was 4.40% and 5.56%, respectively.

Included within accounts receivable are accounts receivable from Group associates (excluding EuRoPol GAZ S.A.) in the amount of RR 13,878 and RR 15,767 as of 31 December 2003 and 2002, respectively.

During periods ended 31 December 2003 and 2002 the Group sold gas to its associated undertakings in the amount of RR 90,338 and RR 69,275, respectively.

Gas is sold to associated undertakings, except for that sold to AO Moldovagaz, on the basis of long-term contracts, at index prices based on world oil and gas prices. Gas prices per thousand cubic meters for such sales ranged from USD 80 to USD 147 and from USD 67 to USD 131 in the year ended 31 December 2003 and 2002, respectively. Gas is sold to AO Moldovagaz based on annual contracts with fixed prices. Prices of gas per thousand cubic meters sold to Moldova amounted to USD 80 and USD 80 in the year ended 31 December 2003 and 2002, respectively.

30 RELATED PARTIES (continued)

The Group's impairment provision on accounts receivable included RR 16,721 and RR 14,914 in respect of amounts due from AO Moldovagaz as of 31 December 2003 and 2002, respectively.

In 2003 and 2002 the Group purchased gas from ZAO KazRosGaz for RR 4,154 at USD 30 per mcm and RR 140 at USD 28 per mcm.

In addition, the Group purchased gas transportation services from certain of the associated undertakings, principally EuRoPol GAZ S.A., which amounted to RR 20,423 and RR 12,419 for the year ended 31 December 2003 and 2002, respectively. The cost of these services was determined based on prices of gas sold to these companies.

Included within accounts payable are accounts payable to the Group's associated undertakings for purchased gas transportation services in the amount of RR 3,590 and RR 1,783 as of 31 December 2003 and 2002, respectively.

In October 2002 the Group settled accounts payable due as a contribution to the charter capital of ZAO Armrosgazprom of USD 126 million (RR 3,798).

OAO AK Sibur

A substantial portion of OAO AK Sibur's transactions were executed with related parties. Prior to acquisition of additional interests in a number of these companies in 2003, OAO AK Sibur's related party transactions were mainly with the then associated undertakings (see Note 28).

OAO Stroytransgaz

OAO Stroytransgaz is a major Russian constructor of pipelines, compressor stations and oil refineries. In the normal course of business, the Group outsources pipeline construction services to third-party contractors through a tender process. OAO Stroytransgaz has been a successful bidder in a large number of these tenders to construct pipelines in the Russian Federation. During years ended 31 December 2003 and 2002 transactions with OAO Stroytransgaz were entered into under contracts which had been executed by certain prior representatives of the Group's Board of Directors and members of their families who at that time owned shareholdings in OAO Stroytransgaz.

OAO Stroytransgaz rendered construction services for the Group in the amounts of RR 30,842 and RR 35,649 for the year ended 31 December 2003 and 2002, respectively. As of 31 December 2003 and 31 December 2002, the Group had advances and receivables due from OAO Stroytransgaz in the amounts of RR 2,344 and RR 7,402, respectively. As of 31 December 2003 and 31 December 2002, the Group had accounts payable to OAO Stroytransgaz for construction contracts of RR 11,102 and RR 10,911, respectively.

AEB

In 2002 the Group obtained short-term loans from AEB, an associated undertaking of AB Gazprombank (ZAO), for the total amount of RR 4,530 (9.0% interest), respectively. No loans were obtained by the Group from AEB in 2003.

OOO Interprokom

During the years ended 31 December 2003 and 2002, respectively, transactions with OOO Interprokom were entered into under contracts which had been executed by certain prior members of the Board of Directors and a member of the Management Committee of the Company and members of their families who at that time or currently own interests in OOO Interprokom.

30 RELATED PARTIES (continued)

OOO Interprokom acts as an agent for the Group in the acquisition of equipment and is remunerated for those services based on a fixed commission percentage. OOO Interprokom acted as an agent in the Group's acquisition of RR 4,260 and RR 8,021 of equipment for the year ended 31 December 2003 and 2002, respectively. As of 31 December 2003 and 2002, the Group had advances and receivables due from OOO Interprokom in the amount of RR 3,891 and RR 877, respectively. Commission paid to OOO Interprokom amounted to RR 60 and RR 113 for year ended 31 December 2003 and 2002, respectively. As of 31 December 2003 and 2002, the Group had accounts payable to OOO Interprokom in respect of equipment supplies of RR 1,884 and RR 5,265, respectively.

AB Gazprombank (ZAO), the Group's principal banking subsidiary, had outstanding import letters of credit issued on behalf of OOO Interprokom and sub-contractors of OOO Interprokom in the amount of RR 1,159 and RR 6,982 as of 31 December 2003 and 2002, respectively. These import letters of credit are issued to third party suppliers in connection with the purchase of equipment by OOO Interprokom on behalf of the Group.

31 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS

Operating environment

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

Legal proceedings

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

Taxation

Russian tax, 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.

Group changes

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

(In millions of Russian Roubles)

31 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS (continued)

Environmental matters

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

Social commitments

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

Financial guarantees

	31 December 2003	31 December 2002
Outstanding guarantees issued on behalf of :		
BSPC	36,170	37,258
Interconnector (UK) Limited	32,400	34,963
Eural Trans Gas	6,274	-
NAK Naftogaz Ukraine	2,945	-
Albustan Investments Ltd	2,396	2,843
Itera Group companies	1,731	3,088
Other	7,848	9,555
	89,764	87,707

Included in financial guarantees are amounts denominated in USD of USD 2,993 million and USD 2,634 million as of 31 December 2003 and 2002, respectively.

In April 2000, credit facilities were provided to BSPC, an associated undertaking (see Note 11), by a group of Italian and Japanese banks for the amount of RR 71,233 (USD 2,053 million) for the construction of the offshore portion of the Blue Stream pipeline. Beginning in 2001, the Group was obligated to provide guarantees on behalf of BSPC in respect of RR 39,152 (USD 1,187 million) related to these credit facilities. As of 31 December 2003 and 2002, BSPC had borrowed RR 36,170 (USD 1,228 million) and RR 37,258 (USD 1,172 million), respectively, of these credit facilities which were guaranteed by the Group, pursuant to its obligation.

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

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 in the amount of USD 100 million were also provided by the Group in connection with purchases of natural gas from Central Asia.

Line "Other" includes mainly guarantees issued by subsidiaries under contracts for purchasing equipment, construction and installation works. As of 31 December 2003 and 2002 this balance includes guarantees issued by OAO AK Sibur to third parties of RR 83 and RR 2,572, respectively.

31 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS (continued)

Capital commitments

In the normal course of business, the Group has entered into contracts for the purchase of property, plant and equipment. The Board has approved a capital expenditure budget for 2004 of RR 192,340.

Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 December 2003 no loss is expected to result from these long-term commitments.

Loan commitments

As of 31 December 2003 and 2002 the Group banking subsidiary AB Gazprombank (ZAO) had undrawn loan commitments related to credit facilities issued to external customers in amounts of RR 13,520 and RR 6,959, respectively.

32 FINANCIAL RISK FACTORS

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

Foreign exchange risk

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

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

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

Interest rate risk

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

Credit risk

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

32 FINANCIAL RISK FACTORS (continued)

Commodity risk

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

33 POST BALANCE SHEET EVENTS

Financial investments

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). Management have assessed that the fair value of consideration paid approximated the fair value of the underlying net assets received.

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. Management have assessed that the fair value of consideration paid approximated the fair value of the underlying net assets received. Bosphorus Gas 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. Management have assessed that the fair value of consideration paid approximated the fair value of the underlying net assets received.

Following the acquisition of additional interests in a number of Russian petrochemical companies (see Note 28) in November 2003 the Group signed an agreement with ZAO Gazonefteknimicheskaya compania to acquire a 14.23% interest in OAO AK Sibur which was transferred to the Group in April 2004. The nominal value of long-term promissory notes issued by a subsidiary of OAO Gazprom 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 in OAO AK Sibur from 78.1% to 92.3%. The Group management has not completed a formal assessment of goodwill, if any, arising on this transaction.

In March 2004 the Group's production subsidiary OAO Vostokgazprom issued 2,275,000 additional ordinary shares. All of the new shares were purchased by OAO Gazprom for RR 2,275 paid in cash. The issue was registered by the Federal Commission for Securities Markets in May 2004. As a result the ownership interest of OAO Gazprom increased from 83.8% to 99.9%.

In June 2004 the Group acquired an additional 12.8% interest in ZAO Stimul. As a result of this transaction the Group increased its interest in the charter capital of ZAO Stimul from 38.2% to 51.0%. ZAO Stimul is a production company, which holds a license for the development of the Eastern part of the Orenburg oil and gas condensate deposit. Group management has not completed a formal assessment of goodwill, if any, arising on this transaction.

Borrowings

In January 2004 the Company has received USD 200 million of borrowings under a loan facility with Commerzbank at 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%.

33 POST BALANCE SHEET EVENTS (continued)

In April 2004 AB Gazprombank (ZAO) received USD 275 million of borrowings under a one-year syndicated loan with ABN Amro and Deutsche Bank AG at an interest rate of LIBOR + 1.8%. AB Gazprombank (ZAO) has an option to extend the loan for one year.

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 on 28 April 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 natural 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.

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