

**OA0 GAZPROM
IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2005**

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 2005 and the related consolidated statements of income, of cash flows and of changes in equity for the year then ended. These financial statements as set out on pages 3 to 53 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 2005, 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 Notes 23 and 32 to the consolidated financial statements. The Government of the Russian Federation has a controlling interest in OAO Gazprom and Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

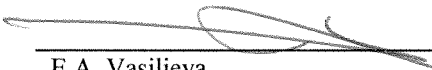
ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
5 July 2006

OA O GAZPROM
IFRS CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2005
(In millions of Russian Roubles)

Notes	31 December		
	2005	2004	
Assets			
Current assets			
7	Cash and cash equivalents	146,866	106,157
7	Restricted cash	18,040	16,861
8	Short-term financial assets	79,001	40,428
9	Accounts receivable and prepayments	394,659	316,709
10	Inventories	169,121	130,400
	VAT recoverable	145,484	94,863
	Other current assets	<u>48,282</u>	<u>21,262</u>
		1,001,453	726,680
Non-current assets			
11	Property, plant and equipment	2,794,757	2,183,084
12, 32	Investments in associated undertakings and jointly controlled entities	250,221	81,783
13	Long-term accounts receivable and prepayments	179,187	146,302
14	Available-for-sale long-term financial assets	67,847	28,710
15	Other non-current assets	<u>51,956</u>	<u>39,230</u>
		<u>3,343,968</u>	<u>2,479,109</u>
	Total assets	4,345,421	3,205,789
Liabilities and equity			
Current liabilities			
16	Accounts payable and accrued charges	219,983	174,433
17	Taxes payable	104,817	84,977
18	Short-term borrowings and current portion of long-term borrowings	180,959	156,172
	Short-term promissory notes payable	<u>20,710</u>	<u>20,845</u>
		526,469	436,427
Non-current liabilities			
19	Long-term borrowings	741,849	427,086
	Long-term promissory notes payable	10,639	11,640
	Restructured tax liabilities	1,128	1,829
22	Provisions for liabilities and charges	83,794	44,275
20	Deferred tax liabilities	255,048	137,062
	Other non-current liabilities	<u>4,613</u>	<u>9,446</u>
		<u>1,097,071</u>	<u>631,338</u>
	Total liabilities	1,623,540	1,067,765
Equity			
23	Share capital	325,194	325,194
23	Treasury shares	(19,504)	(41,586)
23	Retained earnings and other reserves	<u>2,270,727</u>	<u>1,808,865</u>
		2,576,417	2,092,473
31	Minority interest	<u>145,464</u>	<u>45,551</u>
	Total equity	<u>2,721,881</u>	<u>2,138,024</u>
	Total liabilities and equity	4,345,421	3,205,789

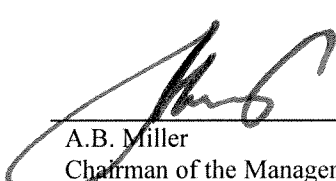

A.B. Miller
Chairman of the Management Committee
5 July 2006

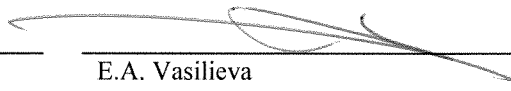

E.A. Vasilieva
Chief Accountant
5 July 2006

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

OA0 GAZPROM
IFRS CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2005
(In millions of Russian Roubles)

Notes		Year ended 31 December	
		2005	2004
24	Sales	1,383,545	976,776
25	Operating expenses	<u>(929,561)</u>	<u>(714,165)</u>
	Operating profit	453,984	262,611
26	Finance income	53,890	69,332
26	Finance expense	<u>(69,926)</u>	<u>(53,482)</u>
12	Share of net income of associated undertakings and jointly controlled entities	11,782	8,151
	Gain on disposal of available-for-sale financial assets	<u>385</u>	<u>5,018</u>
	Profit before profit tax	450,115	291,630
	Current profit tax expense	(118,028)	(57,949)
	Deferred profit tax expense	<u>(16,156)</u>	<u>(21,939)</u>
20	Profit tax expense	<u>(134,184)</u>	<u>(79,888)</u>
	Profit for the period	315,931	211,742
	Attributable to:		
	Equity holders of OAO Gazprom	311,125	209,449
31	Minority interest	<u>4,806</u>	<u>2,293</u>
		315,931	211,742
28	Basic and diluted earnings per share for profit attributable to the equity holders of OAO Gazprom (in Roubles)	14.55	10.44



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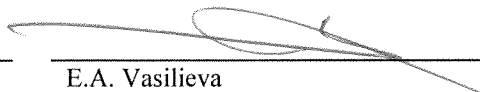

E.A. Vasilieva
Chief Accountant
5 July 2006

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OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2005
(In millions of Russian Roubles)

Notes	Year ended 31 December		
	2005	2004	
	Operating activities		
29	Net cash provided by operating activities	272,617	182,150
	Investing activities		
	Capital expenditures	(274,376)	(197,669)
	Net change in loans made	1,542	2,193
	Interest received	20,715	14,893
11	Interest paid and capitalised	(15,189)	(16,373)
30	Acquisition of subsidiaries, net of cash acquired	(385,033)	(45,351)
	Acquisition of associated undertakings and jointly controlled entities	(2,047)	(9,363)
	Proceeds from associated undertakings and jointly controlled entities	17,458	3,184
	Change in long-term available-for-sale financial assets	(22,556)	(20,517)
	Change in other long-term financial assets	6,076	6,566
	Net cash used for investing activities	(653,410)	(262,437)
	Financing activities		
19	Proceeds from long-term borrowings (including current portion)	596,373	244,210
19	Repayment of long-term borrowings (including current portion)	(338,872)	(113,543)
	Net proceeds from issue of promissory notes	2,369	574
18	Net proceeds from (repayment of) short-term borrowings	23,162	(6,402)
23	Dividends paid	(23,868)	(14,626)
30	Dividends paid by subsidiary to previous and minority shareholders	(14,682)	-
	Interest paid	(30,953)	(19,456)
23	Purchases of treasury shares	(126,691)	(147,993)
23	Sales of treasury shares	337,047	156,788
7	Increase (decrease) in restricted cash	(1,179)	16,882
	Net cash provided by financing activities	422,706	116,434
	Effect of exchange rate changes on cash and cash equivalents	(1,204)	(1,386)
	Increase in cash and cash equivalents	40,709	34,761
	Cash and cash equivalents, at the beginning of reporting period	106,157	71,396
	Cash and cash equivalents, at the end of reporting period	146,866	106,157


A.B. Miller
Chairman of the Management Committee
5 July 2006


E.A. Vasilieva
Chief Accountant
5 July 2006

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

1 NATURE OF OPERATIONS

OAOGazprom 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 also a major exporter of gas to European countries.

The Group is involved in the following principal activities:

- Exploration and production of gas and other hydrocarbons;
- Processing of gas condensate and other hydrocarbons, and sales of other hydrocarbon products;
- Transportation of gas;
- Domestic and export sale of gas.

Subsequent to the acquisition of AO Siberian Oil Company (hereinafter, OAO Sibneft) in October 2005 (see Note 30) the Group's crude oil production and refinery significantly increased and became one of its principal activities.

Other activities primarily comprise banking, construction and media.

The weighted average number of full time employees during 2005 and 2004 was 402 thousand and 392 thousand, respectively. The average number of employees includes OAO Sibneft and its subsidiaries (Sibneft) since the date of acquisition.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain 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.

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 consolidated financial statements of the Group are prepared under the historical cost convention except as described in Notes 4 and 5. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (see Note 4).

Reclassifications

Certain reclassifications have been made to prior period balances to conform to the current year presentation, including the following:

- Total exchange losses attributable to non-finance activities recorded in operating expenses amounted to RR 4,082 for the year ended 31 December 2005. The Group previously disclosed all foreign exchange gains and losses within finance income (costs) of the consolidated statement of income. For the year ended 31 December 2004 total exchange losses attributable to non-finance activities reclassified to operating expenses were RR 5,222. Management believes that inclusion of the exchange gains and losses attributable to non-finance activities in operating expenses of the consolidated statement of income is a fairer presentation of the Group's activities.

3 BASIS OF PRESENTATION (continued)

- Cash outflows attributable to VAT on assets under construction recorded in investing activity were RR 48,704 for the year ended 31 December 2005. The Group had recorded cash outflows attributable to VAT on assets under construction within operating activities of the consolidated statement of cash flows in prior years. For the year ended 31 December 2004 cash outflows attributable to VAT on assets under construction reclassified to investing activity were RR 32,688. Management believes that presentation of cash outflows attributable to VAT on assets under construction within investing activities as part of the purchase of property, plant and equipment in the consolidated statement of cash flows is a fairer presentation of the Group's activities.

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 that are controlled by the Group have been consolidated. Control occurs when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

Goodwill and minority interest

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill is tested annually for impairment as well as when there are indications of impairment. For the purpose of impairment testing goodwill is allocated to the cash generating units that are expected to benefit from synergies from the combination.

When a business combination involves more than one transaction any adjustment to those fair values relating to previously held interests of the Group is recognised as a revaluation in equity. No such revaluation is made when the Group acquires an additional minority interest in subsidiaries.

Any premiums paid in excess of the carrying amount of the respective portion of minority interest at the date of acquisition of an additional interest in subsidiaries are recognised in goodwill.

Minority interest represents that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. In accordance with the provisions of IFRS 3, the acquirer recognises the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date, and any minority interest in the acquiree is stated at the minority's proportion of the net fair value of those items.

Associated undertakings

Associated undertakings are undertakings over which the Group has significant influence and that are neither a subsidiary nor an interest in a joint venture. Significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of an entity but has no control or joint control over those policies. Associated undertakings are accounted for using the equity method.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The equity method involves recognising in the statement of income the Group's share of the associated undertakings' profit or loss for the year. 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, the Group's share of profit and losses and its share of post-acquisition movements in reserves recognised in reserves. Provisions are recorded for any impairment in value.

Recognition of losses under 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 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. There were no financial assets designated at fair value through profit or loss at inception as of 31 December 2005 and 2004.

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. There were no such investments as of 31 December 2005 and 2004.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets are measured at fair value. Investments in quoted equity instruments classified as available-for-sale financial assets are measured at quoted market prices as of the reporting date. Investments in equity instruments for which there are no available market quotations are accounted at cost. The fair value of unquoted debt instruments classified as available-for-sale financial assets is determined using discounted cash flow valuation technique based on prevailing market interest rate for the similar instruments.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the consolidated statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the consolidated statement of income as gains (losses) on disposal of available-for-sale financial assets. Interest income on available-for-sale debt instruments calculated using the effective interest method is recognised in the consolidated statement of income.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

At each balance sheet date the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity instruments recognised in the consolidated statement of income are not reversed through the consolidated statement of income.

4.3 Joint ventures and jointly controlled entities

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.

4.4 Cash and cash equivalents and restricted cash

Cash comprises cash on hand and balances with banks. 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.

4.5 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. 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.

4.6 Value added tax

Value added taxes related to sales of goods and services are payable to the federal tax authorities in Russia upon collection of receivables from customers. Input VAT is reclaimable against sales VAT upon payment for purchased goods and services. VAT payable to the federal tax authorities in Russia for sales is reduced by input VAT. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deductible 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 profit tax purposes.

4.7 Inventories

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

4.8 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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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 state social assets (such as rest houses, housing, schools and medical facilities) retained by the Group at privatisation is recorded only upon the termination of operating responsibility for the social assets. The Group does not possess ownership rights for the assets, but records them on its balance sheet up to the return to a governmental authority because the Group controls the benefits which are expected to flow from the use of the assets and bears all associated operational and custody risks. 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 reduction directly in equity.

Depletion of acquired production licenses is calculated using the units-of-production method for each field based upon proved reserves. Oil and gas reserves for this purpose are determined in accordance with the guidelines of the Society of Petroleum Engineers, the World Petroleum Congress and the Securities and Exchange Commission of the United States, and were estimated by independent reservoir engineers.

Depreciation of assets (other than acquired production licenses) is calculated using the straight-line method over their estimated remaining useful lives, as follows:

	<u>Years</u>
Pipelines	33
Wells	20-40
Machinery and equipment	10-18
Buildings	30-40
Roads	20-40
Social assets	10-40

Depreciation on wells 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 for these consolidated financial statements. Assets under construction are not depreciated.

4.9 Impairment of assets

At each balance sheet date, management assesses whether there is any indication that the recoverable value of the Group's assets has declined below the carrying value (see Note 4.1 for impairment of goodwill). When such a decline is identified, the carrying amount is reduced to the estimated 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 Borrowings

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

4.11 Deferred tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the 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.

Deferred income tax is provided on all 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.

4.12 Foreign currency transactions

Monetary assets and liabilities held by the Group as of 31 December 2005 and 2004 and denominated in foreign currencies are translated into Russian Roubles at the official 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, associated undertakings and jointly controlled entities are translated into Roubles at the official 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 recorded directly in equity.

The official US dollar to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 28.78 and 27.75 as of 31 December 2005 and 2004, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 34.19 and 37.81 as of 31 December 2005 and 2004, respectively.

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

4.13 Provisions for liabilities and charges

Provisions, including provisions for 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 outflows arising from the obligations. Initial estimates of the cost of dismantling and removing the property, plant and equipment are capitalised as property, plant and equipment.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.14 Equity

Treasury shares

Where the Group companies purchase the Group's equity share capital, the consideration paid including any attributable transaction costs is deducted from total equity as treasury shares until they are re-sold. Where such shares are subsequently sold, any consideration received net of income taxes is included in 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 equity, net of associated costs including taxation.

Dividends

Dividends are recognised as a liability and deducted from equity when they are recommended by the Board of Directors and approved at the General Meeting of Shareholders.

4.15 Revenue recognition

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

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

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

4.16 Mutual cancellation and other non-cash transactions

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 10% and 14% of accounts receivable settled during the years ended 31 December 2005 and 2004, respectively, were settled via mutual settlements or other non-cash settlements.

Non-cash transactions have been excluded from the cash flow statement, therefore investing activities, financing activities and the total of operating activities represent actual cash transactions (see Note 29).

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 5.5% to 10.8% and from 5.0% to 13.0% for the years ended 31 December 2005 and 2004, respectively. The Group's long-term promissory notes payable had average interest rates ranging from 6.6% to 10.0% and from 7.0% to 14.0% for the years ended 31 December 2005 and 2004, 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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 financial assets.

4.17 Interest

Interest income and expense are recognised in the statement of income for all interest bearing instruments on an accrual basis using the effective yield method. Interest income includes nominal interest and accrued discount and premium. When loans become doubtful of collection, they are written down to their recoverable amounts (using the original effective rate) and interest income is thereafter recognised based on the same effective rate of interest.

4.18 Research and development

Research expenditure is recognised as an expense as incurred. Development expenditure is 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, even if the asset recognition criteria are subsequently met.

4.19 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, if gains and losses fall outside a “corridor” of plus or minus 10%.

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 relationship between the Group and NPF Gazfund means that the assets held by NPF Gazfund do not represent plan assets and are, therefore, recognized in the consolidated balance sheet as treasury shares or financial assets, 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.

4.20 Financial instruments

Financial instruments carried on the balance sheet include cash and cash equivalent balances, financial assets, 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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

financial instruments including forward and options contracts in foreign exchange and securities. 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.

Derivative contracts embedded into sales-purchase contracts are separated from the host contracts and accounted for separately. Bifurcated derivatives are carried at fair value with gains and losses arising from changes in the fair values of derivatives included in the income statement in the period in which they arise.

Accounting for financial guarantee contracts

Financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised. The fair value of financial guarantee contracts as of 31 December 2005 and 2004 was determined as zero as the probability of future outflows was assessed as remote.

Fair value disclosure

The fair value of accounts receivable for disclosure purposes is measured 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 measured 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 measured based on current market value at the close of business on the reporting date.

4.21 Recent accounting pronouncements

During the period December 2003 to June 2006, the International Accounting Standards Board ("IASB") revised 17 of its standards and issued 7 new standards. In addition, during the same period, the International Financial Reporting Interpretations Committee ("IFRIC") issued nine new interpretations, one of which was subsequently withdrawn. These standards are effective for accounting periods commencing on or after 1 January 2005, except for IFRS 6 "Exploration and Evaluation of Mineral Resources" ("IFRS 6") and IFRS 7 "Financial instruments: disclosures" ("IFRS 7"), which are effective for periods commencing on or after 1 January 2006 and 1 January 2007 respectively, but may be adopted early.

Effective 1 January 2005 the Group adopted all of those IFRS, which are relevant to its operations, except for IFRS 3 "Business Combinations" ("IFRS 3"), IAS 36 (revised 2004) "Impairment of Assets" ("IAS 36") and IAS 38 (revised 2004) "Intangible Assets" ("IAS 38"), which were adopted early by the Group in 2004, and except for those which are not yet effective and were not adopted earlier as discussed below. IFRS 6 was adopted early by the Group effective 1 January 2005.

The adoption of IAS 39 (revised 2004) "Financial Instruments: Recognition and Measurement" ("IAS 39") on 1 January 2005 resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and recognition of gains (losses) arising from changes in fair value of available-for-sale financial assets. The adoption of IAS 39 and early adoption of amendments to IAS 39 "Cash Flow Hedge Accounting of Forecast Intragroup Transactions", "The Fair Value Option" and "Financial Guarantee Contracts", and early adoption of an amendment to IFRS 4 "Financial Guarantee Contracts" had no material effect on the Group's financial position, statements of income or of cash flows.

The adoption of IAS 1 "Presentation of Financial Statements" ("IAS 1"), IAS 2 "Inventories" ("IAS 2"), IAS 8 "Policies, Changes in Accounting Estimates and Errors" ("IAS 8"), IAS 10 "Events after the Balance Sheet Date" ("IAS 10"), IAS 16 "Property, Plant and Equipment" ("IAS 16"), IAS 17 "Leases" ("IAS 17"), IAS 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21"), IAS 24 "Related Party Disclosures" ("IAS 24"), IAS 27 "Consolidated and Separate Financial Statements" ("IAS 27"), IAS 28 "Investments in Associates" ("IAS 28"), IAS 32 "Financial Instruments: Disclosure and Presentation" ("IAS 32") and IAS 33 "Earnings per Share" ("IAS 33") (all revised 2003), and IFRS 2 "Share-based Payments" ("IFRS 2"), IFRS 4 "Insurance contracts" ("IFRS 4") and IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" ("IFRS 5") did not result in substantial changes to the Group's accounting policies. The adoption of these standards did not have a material financial statement effect on adoption or during 2005.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In summary:

- The adoption of IAS 1 (revised 2003) clarifies certain presentation requirements. Most significantly, the revised standard requires that minority interest be presented within equity. The Group has retroactively reflected the revised presentation standard for equity in the consolidated financial information.
- IAS 2, 8, 10, 16, 17, 27, 28, 31, 32 and 33 (all revised 2003), IFRS 2 and 4 had no material effect on the Group’s financial position, statements of income or of cash flows.
- IAS 21 (revised 2003) had no material effect on the Group’s financial position, statements of income or of cash flows. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. The functional currency of the Group subsidiaries has not changed as a result of this re-evaluation.
- IAS 24 (revised 2003) has affected the identification of related parties and some other related-party disclosures. Under IAS 24 (revised 2003) the Group is no longer exempt from disclosing transactions with other state-controlled entities as with parties under common Governmental control.
- The Group accounts for non-current assets held for sale and discontinued operations in accordance with IFRS 5. IFRS 5 replaced IAS 35 “Discontinuing Operations”. Assets or disposal groups that are classified as held for sale are presented separately on the balance sheet and are carried at the lower of the carrying amount and fair value less costs to sell. Additionally, the results of discontinued operations are shown separately on the face of the statement of income. The adoption of IFRS 5 did not have a material effect on the Group.

On 1 January 2005, the Group adopted early IFRS 6. This standard provides guidance on accounting for costs incurred in the exploration for and evaluation of mineral resources. Adoption of the standard did not have a material effect on the Group and did not result in changes of the Group’s accounting policies.

The adoption of amendment to IAS 21 “The Effects of Changes in Foreign Exchange Rates: Net Investment in a Foreign Operation” had no material effect on the Group’s financial position, statements of income or of cash flows.

In addition to the new standards summarised above, interpretations early adopted by the Group on 1 January 2005 are as follows: IFRIC 4 “Determining whether an Arrangement contains a Lease”, IFRIC 5 “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds” and IFRIC Amendment to Standing Interpretations Committee Interpretation 12 (“SIC-12”). The adoption of these interpretations did not have a material impact on the Group’s financial position, statements of income or of cash flows.

The following new Standards and amendments to Standards are not yet effective and have not been applied in preparing these Financial Statements:

- IFRS 7 “Financial instruments: Disclosures”, which is effective for annual periods beginning on or after 1 January 2007. The standard will require increased disclosure in respect of the Group’s financial instruments.
- Amendment to IAS 1 “Presentation of Financial Statements—Capital Disclosures”, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Group’s capital.
- Amendment to IAS 19 “Employee Benefits—Actuarial Gains and Losses, Group Plans and Disclosures”, which is effective for annual periods beginning on or after 1 January 2006. The amendment to IAS 19 introduces an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers.
- IFRIC 9 “Reassessment of Embedded Derivatives”. The interpretation clarifies application of IAS 39 (Amended) for reassessment of the requirement to separate the embedded derivative from the host contract. It states that subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The application of IFRIC 9 is not expected to affect the Group’s financial statements.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards where applicable, otherwise IAS 8 was followed. All standards adopted by the Group require retrospective application.

5 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates and judgements. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

5.1 Fair values of acquired assets and liabilities

The Group has recently completed significant acquisitions (see Note 30). IFRS 3 requires that, at the date of acquisition, all identifiable assets (including intangible assets), liabilities and contingent liabilities of an acquired entity be recorded at their respective fair values. The estimation of fair values requires management judgment. For significant acquisitions, management engages independent experts to advise as to the fair values of acquired assets and liabilities. Changes in any of the estimates subsequent to the finalization of acquisition accounting may result in losses or profits in future periods.

5.2 Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 33).

5.3 Assumptions to determine amount of provisions

Impairment provision for accounts receivable

The impairment provision for accounts receivable is based on the Group's assessment of the collectibility of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates. The charges (and releases) for impairment of accounts receivable may be material (see Note 25).

Impairment of other assets and accounting for provisions

At each balance sheet date the Group assesses whether there is any indication that the recoverable amount of the Group's assets has declined below the carrying value. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. 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. If conditions change and management determines that the asset value has increased, the impairment provision will be fully or partially reversed.

Accounting for impairment includes provisions against capital construction projects, investments, other long-term assets and inventory obsolescence. Because of the Group's operating cycle, certain significant decisions about capital construction projects are made after the end of the calendar year but prior to finalizing the fiscal year financial statements. Accordingly, the Group typically has larger impairment charges or releases in the fourth quarter of the fiscal year as compared to other quarters. The provisions for liabilities and charges primarily include provisions for environmental and pension liabilities. The Group records impairment or accrues these provisions when its assessments indicate that it is probable that a liability has been incurred or an asset will not be recovered, and an amount can be reasonably estimated. The Group's estimates for provisions for liabilities and charges are based on currently available facts and the Group's estimates of the ultimate outcome or resolution of the liability in the future. Actual results may differ from the estimates, and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure. Provisions for pension obligations are periodically adjusted based on updated actuarial assumptions (see Note 22).

5 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

5.4 Site restoration and environmental costs

Site restoration costs that may be incurred by the Group at the end of the operating life of certain of the Group's facilities and properties are recognized 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. The cost is depreciated through the consolidated statement of income on a straight-line basis over the asset's productive life. Changes in the measurement of an existing site restoration obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period. IFRS prescribes the recording of liabilities for these costs. Estimating the amounts and timing of those obligations that should be recorded requires significant judgment. This judgment is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration are subject to change because of change in laws and regulations, and their interpretation.

5.5 Useful lives of property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

6 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" ("IAS 14") for vertically integrated businesses, information can be analysed based on the following business segments: production, refining, transport, distribution and other activities. Other activities are described in Note 1 and these businesses are not separately reflected in these financial statements because they do not represent individually material segments.

As of 31 December 2005 the process of integration of Sibneft to the Group was not completed as the control over OAO Sibneft was established in October 2005 (see Note 30). For that reason and also to ensure the comparability for 2004 and 2005 the operational segments of Sibneft are disclosed separately from the segment information of the rest of the Group (see Note 6.2 below).

6.1 Segment information (except for Sibneft)

The following business segments are identified within the Group (excluding Sibneft):

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

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6 SEGMENT INFORMATION (continued)

	Production	Refining	Transport	Distribution	Other	Total
31 December 2005						
Segment assets	903,030	85,262	1,393,746	285,208	547,710	3,214,956
Associated undertakings and jointly controlled entities	1,473	850	33,772	21,907	26,068	84,070
Unallocated assets						439,171
Inter-segment eliminations						(113,373)
Total assets						3,624,824
Segment liabilities	65,493	19,520	115,063	111,592	81,680	393,348
Unallocated liabilities						1,156,287
Inter-segment eliminations						(113,373)
Total liabilities						1,436,262
Capital additions	93,907	16,588	157,975	17,158	14,302	299,930
Depreciation	37,394	7,452	70,028	954	4,232	120,060
Charge for impairment provisions and other provisions	8,499	1,958	9,251	9,351	1,373	30,432
Unallocated impairment provisions and other provisions						(155)
Total impairment provisions and other provisions						30,277
31 December 2004						
Segment assets	886,998	62,535	1,286,395	261,121	404,983	2,902,032
Associated undertakings and jointly controlled entities	-	1,103	33,308	17,839	29,533	81,783
Unallocated assets						343,345
Inter-segment eliminations						(121,371)
Total assets						3,205,789
Segment liabilities	50,412	22,401	97,255	105,867	72,362	348,297
Unallocated liabilities						840,839
Inter-segment eliminations						(121,371)
Total liabilities						1,067,765
Capital additions	167,391	11,831	107,724	9,624	14,409	310,979
Depreciation	33,853	4,962	66,586	766	4,097	110,264
(Reversal of) charge for impairment provisions and other provisions	(4,547)	764	797	(10,215)	(241)	(13,442)
Unallocated impairment provisions and other provisions						(509)
Total impairment provisions and other provisions						(13,951)

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 non-current assets.

Segment liabilities comprise operating liabilities, excluding items such as taxes payable, borrowings, and deferred tax liabilities.

Capital expenditures include acquisition of subsidiaries (except for assets acquired in the acquisition of OAO Sibneft shown in total assets in Note 6.2 below). 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.

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6 SEGMENT INFORMATION (continued)

	Production	Refining	Transport	Distribution	Other	Total
Year ended 31 December 2005						
Segment revenues						
Inter-segment sales	196,120	5,704	332,225	35,246	-	569,295
External sales	<u>3,504</u>	<u>161,354</u>	<u>25,050</u>	<u>1,033,664</u>	<u>68,984</u>	<u>1,292,556</u>
Total segment revenues	199,624	167,058	357,275	1,068,910	68,984	1,861,851
Segment expenses						
Inter-segment expenses	(4,715)	(11,142)	(37,825)	(515,613)	-	(569,295)
External expenses	<u>(181,067)</u>	<u>(110,750)</u>	<u>(261,998)</u>	<u>(232,974)</u>	<u>(49,402)</u>	<u>(836,191)</u>
Total segment expenses	<u>(185,782)</u>	<u>(121,892)</u>	<u>(299,823)</u>	<u>(748,587)</u>	<u>(49,402)</u>	<u>(1,405,486)</u>
Segment operating profit	13,842	45,166	57,452	320,323	19,582	456,365
Unallocated operating expenses						<u>(19,810)</u>
Operating profit						436,555
Share of net income of associated undertakings and jointly controlled entities	190	-	1,841	6,509	197	8,737
Year ended 31 December 2004						
Segment revenues						
Inter-segment sales	158,747	4,543	251,972	27,933	3,198	446,393
External sales	<u>2,941</u>	<u>122,248</u>	<u>29,027</u>	<u>764,517</u>	<u>58,043</u>	<u>976,776</u>
Total segment revenues	161,688	126,791	280,999	792,450	61,241	1,423,169
Segment expenses						
Inter-segment expenses	(4,054)	(8,156)	(31,504)	(402,679)	-	(446,393)
External expenses	<u>(144,115)</u>	<u>(92,034)</u>	<u>(221,772)</u>	<u>(185,439)</u>	<u>(59,046)</u>	<u>(702,406)</u>
Total segment expenses	<u>(148,169)</u>	<u>(100,190)</u>	<u>(253,276)</u>	<u>(588,118)</u>	<u>(59,046)</u>	<u>(1,148,799)</u>
Segment operating profit	13,519	26,601	27,723	204,332	2,195	274,370
Unallocated operating expenses						<u>(11,759)</u>
Operating profit						262,611
Share of net income of associated undertakings and jointly controlled entities	-	-	5,003	1,857	1,291	8,151

The inter-segment sales mainly consist of:

- Production – sale of gas to the Distribution segment and sale of hydrocarbons to the Refining segment;
- Refining – sale of refined products to other segments;
- Transport – rendering transportation services to the Distribution segment;
- 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 certain financial assets.

Substantially all of the Group's operating assets are located in the Russian Federation. Gas sales to different geographical regions are disclosed in Note 24.

6 SEGMENT INFORMATION (continued)

6.2 Segment information for Sibneft

The following business segments are identified within Sibneft:

- Production – exploration and production of oil and other hydrocarbons, sales of oil and other hydrocarbons;
- Refining – processing of oil and other hydrocarbons, and sales of refined products.

	<u>Production</u>	<u>Refining</u>	<u>Total</u>
As of 31 December 2005			
Segment assets	434,950	82,212	517,162
Associated undertakings	148,699	17,452	166,151
Unallocated assets			66,543
Inter-segment elimination			<u>(29,259)</u>
Total assets			<u>720,597</u>
<hr/>			
Segment liabilities	31,796	32,630	64,426
Unallocated liabilities			152,111
Inter-segment elimination			<u>(29,259)</u>
Total liabilities			<u>187,278</u>
<hr/>			
Capital additions for the period ended 31 December 2005	8,822	223	9,045
Depreciation for the period ended 31 December 2005	3,568	1,155	4,723

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

	<u>Production</u>	<u>Refining</u>	<u>Total</u>
For the period from 21 October 2005 to 31 December 2005			
Segment revenues			
Inter-segment sales	11,870	-	11,870
External sales	<u>38,898</u>	<u>52,091</u>	<u>90,989</u>
Total segment revenues	50,768	52,091	102,859
Segment expenses			
Inter-segment expenses	-	(11,870)	(11,870)
External expenses	<u>(40,684)</u>	<u>(30,647)</u>	<u>(71,331)</u>
Total segment expenses	<u>(40,684)</u>	<u>(42,517)</u>	<u>(83,201)</u>
Segment operating profit	10,084	9,574	19,658
Unallocated operating expenses			<u>(2,229)</u>
Operating profit			17,429
<hr/>			
Share of net income (loss) of associated undertakings	3,067	(22)	3,045

Inter-segment sales of the Production segment include mainly sales of crude oil and other hydrocarbons to the Refining segment.

Substantially all operating assets of Sibneft are located in the Russian Federation.

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6 SEGMENT INFORMATION (continued)

6.3 Reconciliation of segment information disclosed in Notes 6.1 and 6.2 with information disclosed in the IFRS consolidated balance sheet as of 31 December 2005 and IFRS consolidated statement of income for the year ended 31 December 2005

Notes		31 December 2005	
		Total assets	Total liabilities
6.1	Segment information (except for Sibneft)	3,624,824	1,436,262
6.2	Segment information for Sibneft	<u>720,597</u>	<u>187,278</u>
		4,345,421	1,623,540
		Sales	Operating profit
6.1	Segment information (except for Sibneft) for the year ended 31 December 2005	1,292,556	436,555
6.2	Segment information for Sibneft for the period ended 31 December 2005	<u>90,989</u>	<u>17,429</u>
		1,383,545	453,984

7 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

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 10,954 and RR 11,560 as of 31 December 2005 and 2004, respectively, which are restricted as to withdrawal under the terms of certain borrowings. In addition, restricted cash comprises cash balances of RR 7,086 and RR 5,301 as of 31 December 2005 and 2004, respectively, in subsidiary banks, which are restricted as to withdrawal under banking regulations.

8 SHORT-TERM FINANCIAL ASSETS

Notes		31 December	
		2005	2004
	Financial assets held for trading:		
33	Corporate bonds	26,595	8,078
	Corporate shares	21,929	6,841
	Government bonds	5,875	4,740
	Promissory notes	2,882	4,440
	Other	<u>126</u>	<u>147</u>
		57,407	24,246
	Available-for-sale financial assets:		
33	Bonds	10,290	998
	Promissory notes (net of impairment provision of RR 5,503 and RR 4,455 as of 31 December 2005 and 2004, respectively)	<u>11,304</u>	<u>15,184</u>
		<u>21,594</u>	<u>16,182</u>
		79,001	40,428

Financial assets held for trading owned by NPF Gazfund amounted to RR 28,849 and RR 8,421 as of 31 December 2005 and 2004, respectively.

Financial assets held for trading owned by the Group's banking subsidiaries amounted to RR 23,579 and RR 15,356 as of 31 December 2005 and 2004, respectively.

9 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December	
	2005	2004
Trade receivables (net of impairment provision of RR 68,960 and RR 60,658 as of 31 December 2005 and 2004, respectively)	181,316	135,015
Prepayments and advances (net of impairment provision of RR 3,574 and RR 5,371 as of 31 December 2005 and 2004, respectively)	79,684	84,488
Other receivables (net of impairment provision of RR 25,399 and RR 28,862 as of 31 December 2005 and 2004, respectively)	<u>133,659</u>	<u>97,206</u>
	<u>394,659</u>	<u>316,709</u>

The estimated fair value of short-term accounts receivable approximates to their carrying value.

RR 141,493 and RR 99,970 of trade receivables, net of impairment provision, are denominated in foreign currencies, mainly US dollar and Euro, as of 31 December 2005 and 2004, respectively.

Included within prepayments and advances as of 31 December 2004 is RR 31,335 paid to acquire a 42% interest in ZAO Sevmorneftegaz. This prepayment was settled as of 31 January 2005 with the completion of the acquisition (see Note 30).

As of 31 December 2005 and 2004 other receivables include RR 109,660 and RR 73,602, respectively, relating to other 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 2005 the average year-end interest rate on banking deposits and loans ranged from 7.7% to 14.8% on balances denominated in Russian Roubles and from 2.3% to 12.4% on balances denominated in foreign currencies. As of 31 December 2004 the average year-end interest rate on banking deposits and loans ranged from 8.4% to 15.7% on balances denominated in Russian Roubles and 1.8% to 11.5% on balances denominated in foreign currencies.

As of 31 December 2005 and 2004 AB Gazprombank (ZAO) had pledged deposits with banks and other financial institutions of RR 1,566 and RR 1,755, respectively. These are pledged as collateral for borrowings received by OAO Gazprom.

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

10 INVENTORIES

	31 December	
	2005	2004
Gas in pipelines and storage	76,568	69,811
Materials and supplies (net of an obsolescence provision of RR 1,712 and RR 5,942 as of 31 December 2005 and 2004, respectively)	65,122	49,686
Goods for resale (net of an obsolescence provision of RR 210 and RR 373 as of 31 December 2005 and 2004, respectively)	12,649	3,889
Crude oil and refined products	<u>14,782</u>	<u>7,014</u>
	<u>169,121</u>	<u>130,400</u>

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11 PROPERTY, PLANT AND EQUIPMENT

	Pipelines	Wells	Machinery and equipment	Buildings and roads	Produc- tion licenses	Social assets	Assets under construction	Total
As of 31.12.03								
Cost	1,397,119	415,165	697,960	788,911	-	120,587	210,463	3,630,205
Accumulated depreciation	(662,842)	(198,004)	(401,568)	(359,630)	-	(34,380)	-	(1,656,424)
Net book value at								
31.12.03	734,277	217,161	296,392	429,281	-	86,207	210,463	1,973,781
Depreciation	(38,656)	(10,283)	(29,811)	(26,838)	-	(3,446)	-	(109,034)
Additions	49	23	1,524	1,023	-	879	231,449	234,947
Acquisition of subsidiaries	210	-	3,518	4,791	37,303	-	30,210	76,032
Fair value adjustment on acquisition of interests in subsidiaries	(271)	(520)	(2,905)	(3,937)	37,303	(254)	-	29,416
Transfers	48,676	24,431	66,187	67,854	-	326	(207,474)	-
Disposals	(70)	(236)	(3,156)	(7,030)	-	(5,704)	(10,703)	(26,899)
Release of impairment provision	-	-	-	-	-	-	4,841	4,841
Net book value at								
31.12.04	744,215	230,576	331,749	465,144	74,606	78,008	258,786	2,183,084
As of 31.12.04								
Cost	1,445,701	438,585	759,735	849,804	74,606	113,392	258,786	3,940,609
Accumulated depreciation	(701,486)	(208,009)	(427,986)	(384,660)	-	(35,384)	-	(1,757,525)
Net book value at								
31.12.04	744,215	230,576	331,749	465,144	74,606	78,008	258,786	2,183,084
Depreciation	(39,916)	(12,537)	(35,047)	(29,330)	(970)	(3,248)	-	(121,048)
Additions	682	73	2,713	2,655	-	223	302,629	308,975
Acquisition of subsidiaries	-	89,218	97,504	56,358	152,720	1,618	46,752	444,170
Transfers	72,044	36,916	77,010	58,930	-	4,058	(248,958)	-
Disposals	(105)	(543)	(4,437)	(3,344)	-	(4,011)	(7,019)	(19,459)
Charge for impairment provision	-	-	-	-	-	-	(965)	(965)
Net book value at								
31.12.05	776,920	343,703	469,492	550,413	226,356	76,648	351,225	2,794,757
As of 31.12.05								
Cost	1,517,601	563,895	930,058	961,989	227,326	113,561	351,225	4,665,655
Accumulated depreciation	(740,681)	(220,192)	(460,566)	(411,576)	(970)	(36,913)	-	(1,870,898)
Net book value at								
31.12.05	776,920	343,703	469,492	550,413	226,356	76,648	351,225	2,794,757

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 87,605 and RR 86,640 as of 31 December 2005 and 2004, respectively. Charges for impairment provision of assets under construction primarily relates to projects that have been indefinitely suspended and currently excluded from the Group's investment program. Releases of the impairment provision of assets under construction primarily relate to projects that were previously frozen but are now included in the Group's investment program. Operating assets are shown net of provision for impairment of RR 1,985 as of 31 December 2005 and 2004.

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 27,406 and RR 30,935 as of 31 December 2005 and 31 December 2004, respectively.

Included in additions above is capitalized interest of RR 15,189 and RR 16,373 for the years ended 31 December 2005 and 2004, respectively. Capitalization rates of 7.0% and 6.2% were used representing the weighted average actual borrowing cost of the relevant borrowings for the years ended 31 December 2005 and 2004, respectively.

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11 PROPERTY, PLANT AND EQUIPMENT (continued)

Included in the property, plant and equipment above are fully depreciated assets which are still in service with a gross cost of RR 750,502 and RR 722,018 as of 31 December 2005 and 2004, respectively. Included in additions are non-cash additions of RR 68,626 and RR 46,862 for the years ended 31 December 2005 and 2004, respectively.

Depreciation includes RR 1,037 and RR 1,208 for the years ended 31 December 2005 and 2004, respectively, which is considered a cost of self-constructed assets and thus capitalized rather than expensed in the consolidated statement of income. RR 25,633 and RR 20,064 of depreciation as of 31 December 2005 and 2004, respectively, is capitalized as a component of gas inventories.

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 2030, however they may be extended. Management believes the existing licenses on properties expected to produce hydrocarbons will be extended subsequent to their current expiration dates at insignificant additional costs. Because of the expected renewals, the assets are depreciated over their useful lives even if this is beyond the end of the current license.

In 2004 the Group recorded a fair value adjustment on acquisition of subsidiaries which includes a RR 7,887 decrease in the net carrying value of the identifiable assets and liabilities of petrochemical companies, in which the Group acquired additional interests in the period from April 2003 to August 2004, and a RR 37,303 increase in production licenses held by ZAO Sevmorneftegaz (see Note 30).

The acquisition of OAO Sibneft in 2005 is described in Note 30.

12 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES

Notes	Carrying value as of		Group's share of the		
	31 December 2005	2004	profit (loss) of the entities for the Year ended 31 December 2005	2004	
	OAO NGK Slavneft	148,699	-	3,067	-
32	SGT EuRoPol GAZ S.A.	32,348	32,089	1,684	4,722
32	OAO Mosenergo and companies established under restructuring	18,422	18,905	689	584
	OAO Moscovsky NPZ	15,784	-	(22)	-
32	WINGAS GmbH	4,113	5,238	2,064	1,578
32	ZAO ArmRosGazprom	3,733	3,312	34	(96)
32, 33	OAO Stroytransgaz	3,441	3,518	5	30
24, 32	RosUkrEnergo AG	3,235	-	3,060	-
	AO Latvijas Gaze	2,938	1,433	438	239
	AO Lietuvos Dujos	1,701	1,783	200	157
	BSPC	1,191	987	157	42
	AEB	-	2,220	-	377
	Other (net of provision for impairment of RR 5,386 and RR 7,366 as of 31 December 2005 and 2004, respectively)	<u>14,616</u>	<u>12,298</u>	<u>406</u>	<u>518</u>
		<u>250,221</u>	<u>81,783</u>	<u>11,782</u>	<u>8,151</u>

12 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES
(continued)

	For the Year ended 31 December	
	2005	2004
Balance at the beginning of the reporting period	81,783	58,939
Share of net income	11,782	8,151
Reduction in loans	(686)	(2,588)
Dividends received	(11,101)	(765)
Translation differences	(925)	1,715
Net acquisitions	<u>169,368</u>	<u>16,331</u>
Balance at the end of the reporting period	<u>250,221</u>	<u>81,783</u>

Investments in OAO NGK Slavneft and OAO Moskovsky NPZ were acquired on the acquisition of OAO Sibneft in 2005 (see Note 30). OAO NGK Slavneft is engaged in the production and refining of crude oil, and sale of crude oil and refined products in domestic and foreign markets. OAO Moskovsky NPZ is engaged in the refining of crude oil and sale of refined products.

In January 2005 the Group purchased from OOO Itera Latvia an additional 9% ownership interest in AO Latvijas Gaze for USD 58 million, thus increasing its ownership interest in AO Latvijas Gaze up to 34% + one share.

In 2004 the general shareholders' meeting of OAO Mosenergo approved the company's restructuring, which entailed the creation of 13 new companies. As a result of the reorganization in April 2005 each shareholder of OAO Mosenergo including the Group received ordinary shares of each of the 13 companies in the amount equal to OAO Mosenergo ordinary shares previously owned, and remained the owner of the same quantity of OAO Mosenergo ordinary shares as prior to the creation of the new companies. After the restructuring the Group continues to exercise significant influence on OAO Mosenergo and the 13 newly created companies.

Investment in RosUkrEnergo AG is stated net of unrealized profit in the amount of RR 6,500 from gas sales from the Group to RosUkrEnergo AG during 2005. The gas has not been sold by RosUkrEnergo AG to other parties by 31 December 2005.

In October 2005 the Group sold its 25.5% interest in AEB for RR 2,220 paid in cash.

12 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES (continued)

Summarised IFRS financial information on the Group's principal associates and jointly controlled entities is as follows:

	Assets	Liabilities	Revenues*	Profit (loss)*
31 December 2005				
OA0 NGK Slavneft	367,956	68,858	37,326	6,181
SGT EuRoPol GAZ S.A.	58,941	33,926	13,183	3,508
OA0 Mosenergo and companies established under restructuring	110,488	37,915	167,336	1,003
OA0 Moscovsky NPZ	44,049	3,417	1,365	(56)
WINGAS GmbH	98,583	90,730	130,087	4,613
ZAO ArmRosGazprom	10,983	2,688	3,468	65
OA0 Stroytransgaz	49,978	24,901	23,380	319
RosUkrEnergo AG	57,343	35,598	121,092	21,368
AO Latvijas Gaze	14,566	3,381	6,893	1,222
AO Lietuvos Dujos	22,086	3,888	6,282	478
BSPC	68,177	63,545	6,704	(1,483)
31 December 2004				
SGT EuRoPol GAZ S.A.	60,066	38,111	11,392	7,564
OA0 Mosenergo	123,682	37,793	88,850	1,716
WINGAS GmbH	78,390	69,827	92,911	6,540
ZAO ArmRosGazprom	9,379	2,009	2,573	34
OA0 Stroytransgaz	56,406	31,056	32,266	708
AO Latvijas Gaze	14,238	2,446	6,591	1,027
AO Lietuvos Dujos	8,222	1,689	5,231	714
BSPC	65,416	59,495	6,612	(948)
AEB	37,170	25,093	5,421	2,033

* Revenues and profit (loss) of the Group's associated undertakings and jointly controlled entities are disclosed in total for the financial year, except for OA0 NGK Slavneft and OA0 Moscovsky NPZ, for which revenues and profit (loss) are disclosed from the date of acquisition.

The estimated fair values of investments in associated undertakings for which there are published price quotations were as follows:

	31 December	
	2005	2004
OA0 Mosenergo (stand alone)	29,123	28,955
AO Latvijas Gaze	7,310	3,537
AO Lietuvos Dujos	6,741	7,475

The fair value of investment in OA0 Mosenergo (on a stand alone basis) has been impacted by the restructuring described above. Certain activities previously included in OA0 Mosenergo in 2004 are now performed by related companies.

12 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES
(continued)

Principal associated undertakings and jointly controlled entities

Entities	Country	Nature of operations	% of ordinary shares held as of	
			2005	2004
OOO Achimgaz	Russia	Exploration of oil, gas and other hydrocarbons	50	50
Altalanos Ertekgalml Bank (AEB)	Hungary	Banking	-	26
ZAO ArmRosGazprom	Armenia	Transportation and gas distribution	45	45
Blue Stream Pipeline company B.V.	Netherlands	Construction, gas transportation	50	50
Bosphorus Gaz Corporation A.S.	Turkey	Gas distribution	40	40
SGT EuRoPol GAZ S.A.	Poland	Transportation and gas distribution	48	48
Gaz Project Development Central Asia AG	Germany	Gas distribution	50	50
AO Gazum	Finland	Gas distribution	25	25
AO KazRosGaz	Kazakhstan	Transportation and gas distribution	50	50
AO Latvijas Gaze	Latvia	Transportation and gas distribution	34	25
AO Lietuvos Dujos	Lithuania	Transportation and gas distribution	37	37
AO Moldovagaz	Moldova	Transportation and gas distribution	50	50
OA O Moscovsky NPZ	Russia	Production and distribution of refined products	39	-
OA O Mosenergo and companies established under restructuring	Russia	Electric power distribution	25	25
ZAO Nortgaz	Russia	Exploration and production of gas	51	51
AO Overgaz Inc.	Bulgaria	Gas distribution	50	50
AO Panrusgaz	Hungary	Gas distribution	40	40
AO Prometheus Gas	Greece	Foreign trade activity	50	50
RosUkrEnergO AG	Switzerland	Gas distribution	50	50
OA O NGK Slavneft	Russia	Oil exploration, production, refinery and distribution of oil and refined products	50	-
OA O Sogaz	Russia	Insurance	24	24
ZAO Stella Vitae	Lithuania	Transportation and gas distribution	30	30
OA O Stroytransgaz	Russia	Construction	26	26
AO Turusgaz	Turkey	Gas distribution	45	45
Vemex s.r.o.	Czech Republic	Gas distribution	33	-
Wintershall Gas GmbH (WINGAS GmbH)	Germany	Transportation and gas distribution	35	35
Wintershall Erdgas Handelshaus GmbH & Co.KG	Germany	Gas distribution	50	50
Wintershall Erdgas Handelshaus Zug AG	Romania	Gas distribution	50	50
Wirom Gas S.A.	Romania	Gas distribution	26	26

13 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December	
	2005	2004
Long-term accounts receivable and prepayments (net of impairment provision of RR 14,857 and RR 19,920 as of 31 December 2005 and 2004, respectively)	131,869	111,784
Advances for assets under construction (net of impairment provision of RR nil as of 31 December 2005 and 2004, respectively)	<u>47,318</u>	<u>34,518</u>
	<u>179,187</u>	<u>146,302</u>

Long-term accounts receivable and prepayments include amounts due from South Pars of RR 7,552 and RR 12,009, net of impairment provision of RR 117 and RR 1,473 as of 31 December 2005 and 2004, respectively. 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.

As of 31 December 2005 and 2004, long-term accounts receivable and prepayments include RR 71,271 and RR 44,071, respectively, relating to operations of AB Gazprombank (ZAO). These balances mainly represent long-term loans issued to customers at commercial rates based on credit risks and maturities.

As of 31 December 2005 long-term accounts receivable include a loan of RR 10,241 (USD 356 million) issued by AB Gazprombank (ZAO) to RosUkrEnerg AG due in June 2007 at an interest rate of 10%.

The estimated fair value of long-term accounts receivable, excluding prepayments, is RR 129,879 and RR 103,728 as of 31 December 2005 and 2004, respectively.

14 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

	31 December	
	2005	2004
Equity instruments accounted at fair value (RAO UES of Russia)	54,745	18,553
Equity instruments at cost (net of provision for impairment of RR 11,456 and RR 13,338 as of 31 December 2005 and 2004, respectively)	8,655	4,119
Debt instruments (net of provision for impairment of RR 20 and nil as of 31 December 2005 and 2004, respectively)	<u>4,447</u>	<u>6,038</u>
	<u>67,847</u>	<u>28,710</u>

The Group held a 10.49% and 5.19% interest in the share capital of RAO UES of Russia as of 31 December 2005 and 2004, respectively.

15 OTHER NON-CURRENT ASSETS

Included within other non-current assets is VAT related to assets under construction totalling RR 24,179 and RR 23,945 as of 31 December 2005 and 2004, respectively.

16 ACCOUNTS PAYABLE AND ACCRUED CHARGES

	31 December	
	2005	2004
Trade payables	72,103	53,153
Accounts payable for acquisition of property, plant and equipment	47,226	50,667
Advances received	5,081	3,787
Accruals and deferred income	2,330	1,582
Other payables	<u>93,243</u>	<u>65,244</u>
	<u>219,983</u>	<u>174,433</u>

16 ACCOUNTS PAYABLE AND ACCRUED CHARGES (continued)

Other payables include RR 53,078 and RR 34,761 related to the operations of the Group's banking subsidiaries as of 31 December 2005 and 2004, respectively. These balances mainly represent amounts due to the banks' customers with terms at commercial rates, varying by maturity of deposit, ranging from 0.0% to 1.0% per annum as of 31 December 2005 and 2004.

In the years ended 31 December 2005 and 2004 approximately 15% and 18% of the Group's settlements of accounts payable and accrued charges were made via non-cash settlements.

RR 19,163 and RR 13,040 of trade payables are denominated in foreign currency, mainly the US dollar and Euro, as of 31 December 2005 and 2004, respectively. Book values of accounts payable approximate their fair value.

17 TAXES PAYABLE

	31 December	
	2005	2004
VAT	59,883	48,440
Profit tax	15,265	19,417
Natural resources production tax	12,742	5,702
Excise tax	7,337	3,640
Property tax	3,194	1,269
Tax penalties and interest	3,141	4,619
Other taxes	<u>4,383</u>	<u>3,719</u>
	105,945	86,806
Less: long term portion of restructured tax liabilities	<u>(1,128)</u>	<u>(1,829)</u>
	<u>104,817</u>	<u>84,977</u>

Substantially all accrued taxes above that are overdue, except restructured tax liabilities, incur interest at a rate of 1/300th of the refinancing rate of the Central Bank of the Russian Federation per day (12% and 13% per annum as of 31 December 2005 and 2004, respectively). Interest does not accrue on tax penalties and interest.

As of 31 December 2005 and 2004 included within VAT payable is RR 50,287 and RR 42,465, respectively, and included within excise tax payable is RR 2,389 and RR 2,047, respectively, that are only payable to Russian tax authorities when the underlying receivable is recovered, written off or expired due to limitation period.

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

	31 December	
	2005	2004
Short-term borrowings:		
RR denominated borrowings	50,759	33,395
Foreign currency denominated borrowings	<u>47,319</u>	<u>35,844</u>
	98,078	69,239
Current portion of long-term borrowings (see Note 19)	<u>82,881</u>	<u>86,933</u>
	<u>180,959</u>	<u>156,172</u>

Short-term RR denominated borrowings had average interest rates ranging from 8.0% to 13.0% and from 6.5% to 7.9% for the years ended 31 December 2005 and 2004, respectively. Short-term foreign currency denominated borrowings had average interest rates ranging from 2.4% to 7.8% and from 3.4% to 9.0% for the years ended 31 December 2005 and 2004, respectively.

As of 31 December 2005 and 2004, respectively, short-term borrowings include RR 67,752 and RR 50,875 of short-term borrowings of AB Gazprombank (ZAO).

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19 LONG-TERM BORROWINGS

	Currency	Final maturity	31 December	
			2005	2004
Long-term borrowings payable to:				
Dresdner Bank AG*	US dollar	2007	74,349	-
Morgan Stanley AG	US dollar	2013	51,921	50,118
Structured export notes issued in July 2004	US dollar	2020	37,058	35,740
Dresdner Bank AG*	US dollar	2010	36,194	-
Dresdner Bank AG*	US dollar	2008	36,186	-
Loan participation notes issued in May 2005	Euro	2015	35,357	-
Loan participation notes issued in April 2004	US dollar	2034	34,880	33,801
Loan participation notes issued in September 2003	Euro	2010	34,847	38,584
Deutsche Bank AG	US dollar	2014	34,732	33,440
Loan participation notes issued in December 2005	Euro	2012	34,280	-
Eurobonds issued by AB Gazprombank (ZAO) in September 2005	US dollar	2015	29,013	-
ABN AMRO*	US dollar	2010	25,666	29,886
Calyon	US dollar	2010	23,977	28,173
Eurobonds issued by AB Gazprombank (ZAO) in October 2003	US dollar	2008	21,747	20,941
Salomon Brothers AG	US dollar	2009	20,548	19,821
ABN AMRO*	US dollar	2008	20,249	-
Syndicate of foreign banks	US dollar	2008	18,796	-
Eurobonds issued by OAO Sibneft in December 2002	US dollar	2009	16,672	-
Depfa Bank*	US dollar	2008	14,760	14,237
Salomon Brothers AG	US dollar	2007	14,632	14,106
Credit Swiss First Boston	Euro	2009	13,763	-
Eurobonds issued by OAO Sibneft in January and March 2002	US dollar	2007	12,517	-
Gazstream SA	US dollar	2012	11,775	-
Russian bonds issued in February 2004	Rouble	2007	10,338	10,338
Deutsche Bank AG	US dollar	2011	10,214	9,815
Eurobonds issued by AB Gazprombank (ZAO) in January 2004	US dollar	2008	8,699	8,376
Mannesmann (Deutsche Bank AG)*	Euro	2008	8,591	12,670
Credit Swiss First Boston	Euro	2007	8,577	-
Gazstream SA	US dollar	2010	8,358	-
ABN AMRO*	US dollar	2010	7,853	-
Credit Swiss First Boston	Euro	2008	6,893	-
J.P. Morgan Chase Bank	US dollar	2011	5,792	5,578
Credit Swiss First Boston	US dollar	2006	5,783	5,567
BNP Paribas SA	US dollar	2008	5,761	-
Raiffeisen Centralbank*	US dollar	2008	5,184	-
Russian bonds issued in August 2005	Rouble	2009	5,108	-
Russian bonds issued in October 2004	Rouble	2007	5,070	5,083
Russian bonds issued in February 2005	Rouble	2010	4,884	-
Deutsche Bank AG	US dollar	2009	4,562	5,630
ZAO KB Citibank*	US dollar	2008	4,363	-
German banking consortium	Euro	2007	3,594	6,075
BNP Paribas SA*	US dollar	2007	3,187	-
OA0 Vneshtorgbank	US dollar	2008	2,894	-
Deutsche Bank AG	US dollar	2006	2,319	5,581
International banking consortium	Euro	2006	2,051	6,239
ABN AMRO	US dollar	2007	-	11,218

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19 LONG-TERM BORROWINGS (continued)

	Currency	Final maturity	31 December	
			2005	2004
Intesa BCI*	US dollar	2007	-	10,030
Mizuho Bank (Fuji Bank)*	US dollar	2010	-	8,224
Commertzbank AG*	US dollar	2009	-	7,969
SACE*	US dollar	2012	-	6,992
WestLB AG*	US dollar	2005	-	5,968
Eurobonds issued by AB Gazprombank (ZAO) in October 2002	Euro	2005	-	5,739
ABN AMRO	US dollar	2008	-	5,569
Russian bonds issued in October 2002	Rouble	2005	-	5,098
Other long-term borrowings	Various	Various	<u>40,736</u>	<u>47,413</u>
Total long-term borrowings			824,730	514,019
Less: current portion of long-term borrowings			<u>(82,881)</u>	<u>(86,933)</u>
			741,849	427,086

* Loans received from syndicate of banks, named lender is the bank-agent.

	31 December	
	2005	2004
RR denominated borrowings (including current portion of RR 1,626 and RR 8,300 as of 31 December 2005 and 2004, respectively)	36,959	31,996
Foreign currency denominated borrowings (including current portion of RR 81,255 and RR 78,633 as of 31 December 2005 and 2004, respectively)	<u>787,771</u>	<u>482,023</u>
	824,730	514,019

	31 December	
	2005	2004
Due for repayment:		
Between one and two years	153,165	54,487
Between two and five years	360,505	182,623
After five years	<u>228,179</u>	<u>189,976</u>
	741,849	427,086

Long-term borrowings include fixed rate loans with a carrying value of RR 472,979 and RR 323,544 and fair value of RR 510,608 and RR 353,160 as of 31 December 2005 and 2004, respectively. All other long-term borrowings generally have variable interest rates linked to LIBOR, and the carrying amounts approximate fair value.

As of 31 December 2005 and 2004, long-term borrowings of AB Gazprombank (ZAO) are equal to RR 100,339 and RR 60,286, including current portion of nil and RR 5,739, respectively.

In July 2005, OAO Gazprom received US dollar denominated loans from Gazstream S.A. in the amount of RR 11,515 (USD 400 million) due in 2012 at an interest rate of 5.065% and in the amount of RR 8,162 (USD 283.2 million) due in 2010 at an interest rate of 5.625%. These loans were obtained to refinance existing obligations to Mizuho Bank (Fuji Bank), SACE and Intesa BCI related to the construction of the Blue Stream pipeline.

As of 31 December 2005 the amount payable to Dresdner Bank AG in the amount of RR 146,729 represents outstanding borrowings, received for the purchase of the shares of OAO Sibneft (see Note 30).

In 2005 the Group had two issues of Russian bonds in the amount of RR 5,000 each with maturity on 10 February 2010 and a coupon yield of 8.22%, and with maturity on 6 August 2009 and a coupon yield of 6.95%.

19 LONG-TERM BORROWINGS (continued)

In 2005 the Group had two issues of Loan participation notes in the amount of EUR 1,000 million each with an interest rate of 5.875% to be repaid in 2015, and with an interest rate of 4.56% to be repaid in 2012.

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	
	2005	2004
Fixed rate RR denominated long-term borrowings	8.09%	9.86%
Fixed rate foreign currency denominated long-term borrowings	7.28%	7.34%
Variable rate foreign currency denominated long-term borrowings	5.27%	5.05%

As of 31 December 2005 and 2004 long-term borrowings of RR 98,886 and RR 147,634, respectively, inclusive of current portion of long-term borrowings, are secured by revenues from export supplies of gas to Western Europe. As of 31 December 2005 long-term borrowings of RR 43,228 and short-term borrowings of RR 1,151 were secured by revenues from oil supplies to Western Europe.

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

20 PROFIT TAX

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

	Year ended 31 December	
	2005	2004
Profit before profit tax and minority interest	<u>450,115</u>	<u>291,630</u>
Theoretical tax charge at a statutory rate (24% for the years ended 31 December 2005 and 2004, respectively)	(108,028)	(69,991)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	(33,416)	(23,425)
Non-taxable income from settlement of accounts receivable due from NAK Naftogaz Ukraine	-	6,287
Other non-taxable income	<u>7,260</u>	<u>7,241</u>
Profit tax expense	<u>(134,184)</u>	<u>(79,888)</u>

Profit tax expense in the consolidated statement of income is stated net of RR 24,724 and RR 3,068 of tax attributable to gains arising on treasury share transactions for the years ended 31 December 2005 and 2004, 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%.

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20 **PROFIT TAX (continued)**

	31 December 2005	Differences recognition and reversals	31 December 2004	Differences recognition and reversals	31 December 2003
Tax effects of taxable temporary differences:					
Property, plant and equipment	(236,349)	(101,179)	(135,170)	(36,417)	(98,753)
Financial assets	(22,645)	(20,923)	(1,722)	(584)	(1,138)
Inventories	(2,967)	14	(2,981)	(33)	(2,948)
	<u>(261,961)</u>	<u>(122,088)</u>	<u>(139,873)</u>	<u>(37,034)</u>	<u>(102,839)</u>
Tax effects of deductible temporary differences:					
Tax losses carry forward	2,829	2,055	774	(3,731)	4,505
Other deductible temporary differences	4,084	2,047	2,037	526	1,511
Total net deferred tax liabilities	<u>(255,048)</u>	<u>(117,986)</u>	<u>(137,062)</u>	<u>(40,239)</u>	<u>(96,823)</u>

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 was determined upon independent appraisals, the most recent of which was recognised for profit tax purposes 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. From 1 January 2002, any revaluation of property, plant and equipment recorded in the statutory accounting records is not recorded in the tax accounting records and therefore has no impact on temporary differences.

OA0 Gazprom recorded current period tax losses in its statutory books in 2002. This resulted in a recognition of a deferred tax asset of RR 573 and RR 774 as of 31 December 2005 and 2004, respectively. The deferred tax asset, related to tax losses carry forward in the amount of RR 2,256 resulted from the acquisition of OA0 Sibneft in October 2005 (see Note 30). RR 838 and RR 15,546 of tax losses carry forward were utilised in the years ended 31 December 2005 and 2004, respectively.

Taxable temporary difference resulting from the acquisition of OA0 Sibneft (see Note 30) in October 2005 in respect of property, plant and equipment amounted to RR 79,375 and in respect of financial assets amounted to RR 18,964. Recognised in 2004 temporary differences in respect of property, plant and equipment include taxable temporary difference resulting from the fair value adjustment following the acquisition interest in ZAO Sevmorneftegaz (see Note 30) with a tax effect of RR 17,905.

In accordance with the tax legislation of the Russian Federation tax losses and current tax assets of the different companies in the Group may not be set off against taxable profits and current tax liabilities of other companies. In addition, the tax base is separately determined for main activities, income from operations with securities and service activities. Tax losses arising from one type of activity can not be offset with taxable profit of other types of activity. Consequently, taxes may accrue even where there is a net consolidated tax loss. Also, a deferred tax asset of one company (type of activity) of the Group can not be offset against a deferred tax liability of another company (type of activity). As at 31 December 2005 and 2004 deferred tax assets in the amount of RR 10,733 and RR 8,078 have not been recorded for the deductible temporary differences for which it is not probable that sufficient taxable profit of the Group subsidiaries 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 264,629 and RR 209,855 as of 31 December 2005 and 2004, respectively. A deferred tax liability on these temporary differences was not recognized because management controls the timing of the reversal of the temporary differences controls the timing of the reversal of the temporary differences and believes that they will not reverse in the foreseeable future.

21 FINANCIAL INSTRUMENTS

Derivative financial instruments

As of 31 December 2005 the Group had outstanding commodity contracts and contracts to purchase and sell securities, 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. Fair values of derivatives are reflected at their gross value in the balance sheet.

	31 December			
	2005		2004	
	Notional principal equivalents	Fair value	Notional principal equivalents	Fair value
Foreign exchange option contracts				
Call options held – foreign	7,627	174	10,958	1,436
Put options held – foreign	2,556	17	1,195	2
Call options written – foreign	(570)	(8)		
Put options written – foreign	(560)	(1)		
	9,053	182	12,153	1,438
Foreign exchange forward contracts				
Assets foreign	15,502	183	13,798	(108)
Assets domestic	27,315	36		
Liabilities foreign	(26,243)	(397)	(5,058)	(15)
Liabilities domestic	(45,124)	(27)	(1,804)	(14)
	(28,550)	(205)	6,936	(137)
Securities option contracts				
Call options written – foreign			(180)	(11)
Put options written – domestic	(787)	(1,111)	2,210	(199)
Put options held – domestic	764	-		
	(23)	(1,111)	2,030	(210)
Securities forward contracts				
Assets – foreign	1,693	4		
Assets – domestic	20	-	1,036	(2)
Liabilities – foreign	(3,216)	(7)		
Liabilities – domestic			(14,675)	892
	(1,503)	(3)	(13,639)	890
Commodity contracts				
Commodity contracts assets		7,456		
Commodity contracts liabilities		(6,515)		
	83,439	941		

The maturities of all derivative financial instruments are less than one year, and the majority of the contracts have maturities less than one month. All deals are fixed price contracts and are settled in the normal course of business.

The Group enters into contracts to receive and deliver commodities in accordance with its expected purchase, sale or usage requirements. Such contracts are not considered derivatives and not included in the table above.

22 PROVISIONS FOR LIABILITIES AND CHARGES

Notes	31 December	
	2005	2004
33 Provision for pension obligations	57,733	38,046
Provision for environmental liabilities	25,070	5,134
Other	991	1,095
	83,794	44,275

22 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The amounts associated with pension obligations recognized in the balance sheet are as follows:

	31 December	
	2005	2004
Present value of obligations (unfunded)	190,435	120,916
Unrecognised actuarial losses	(103,301)	(81,480)
Unrecognised past service cost	<u>(29,401)</u>	<u>(1,390)</u>
Net liability	<u>57,733</u>	<u>38,046</u>

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

	Year ended 31 December	
	2005	2004
Current service cost	5,362	2,751
Interest cost	9,120	3,456
Past service cost amortisation	82	82
Net actuarial losses	6,939	1,169
Vested prior service cost	<u>-</u>	<u>1,142</u>
Net expense included in staff costs in the statement of income (see Note 25)	<u>21,503</u>	<u>8,600</u>

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

	Year ended 31 December	
	2005	2004
Net liability at the beginning of the reporting period	38,046	30,595
Net expense recognised in the consolidated statement of income	21,503	8,600
Benefits paid	<u>(1,816)</u>	<u>(1,149)</u>
Net liability at the end of the reporting period	<u>57,733</u>	<u>38,046</u>

Principal actuarial assumptions used (expressed as weighted average):

	31 December	
	2005	2004
Discount rate (nominal)	6.9%	7.6%
Future salary increases (nominal)	7.0%	7.0%
Employees average remaining working life (years)	<u>15</u>	<u>16</u>

23 EQUITY

Share capital

Share capital authorised, issued and paid in totals RR 325,194 as of 31 December 2005 and 2004 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 roubles.

Dividends

In 2005, the OAO Gazprom accrued and paid dividends in the nominal amount of RR 1.19 per share for the year ended 31 December 2004. In 2004, OAO Gazprom accrued and paid dividends in the nominal amount of RR 0.69 per share for the year ended 31 December 2003.

In 2006 the Board of Directors of OAO Gazprom recommended payment of a final dividend for the year ended 31 December 2005 in the amount of RR 1.50 per share. Because this decision was reached after the balance sheet date and is submitted for approval at the General Meeting of the Shareholders the final dividend proposed in respect of 2005 has not been recognised in the consolidated balance sheet. The final dividend of RR 35,510 (including dividend tax withheld at source in the amount of RR 3,383) will be paid prior to 31 December 2006.

23 EQUITY (continued)

Treasury shares

As of 31 December 2005 and 2004, subsidiaries of OAO Gazprom held 848 million and 3,573 million of the ordinary shares of OAO Gazprom, respectively. Shares of the Group held by the subsidiaries represent 3.6% and 15.1% of OAO Gazprom shares as of 31 December 2005 and 2004, respectively. The Group management controls the voting rights of these shares.

In June 2005, the Board of Directors approved the sale of treasury shares held by the Group's subsidiaries to OAO Rosneftgaz, a company 100% owned by the Government. The shares, which represent 10.74% of Gazprom shares, were sold during June and July 2005 for total consideration of RR 203,502 payable in cash. Profit tax attributed to this transaction was approximately RR 22,573.

Resulting from this transaction, shareholders' equity was increased by RR 180,929. In 2005, cash payments of RR 203,502 were received from OAO Rosneftgaz. The transaction had no significant impact on the consolidated results of operations. Following this transaction, the Government has a controlling interest in OAO Gazprom.

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 2002. Also, retained earnings and other reserves include translation losses arising on the translation of the net assets of foreign subsidiaries, associated undertakings and jointly controlled entities in the amount of RR 20,732 and RR 25,304 as of 31 December 2005 and 2004, respectively.

Retained earnings and other reserves include a statutory fund for social assets, created at the time of privatisation in accordance with Russian legislation. From time to time, the Group negotiates to return certain of these assets to governmental authorities, and this process may continue. Social assets with a net book value of RR 2,162 and RR 2,633 have been transferred to governmental authorities during the years ended 31 December 2005 and 2004, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

As of 31 December 2005 and 2004 retained earnings and other reserves also include a revaluation surplus of RR 37,303 resulting from the fair value adjustment to the assets and liabilities in the previously held interests of ZAO Sevmorneftegaz following the transactions in December 2004 (see Note 30). The remaining amount of the revaluation surplus resulted primarily from the fair value adjustment to the assets and liabilities of ZAO Stimul.

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 2005, the statutory profit for the parent company was RR 203,439. 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.

24 SALES

	Year ended 31 December	
	2005	2004
Gas sales (including excise tax and custom duties, net of VAT) to customers in:		
Russian Federation	311,336	252,552
Former Soviet Union (excluding Russian Federation)	131,393	88,440
Europe	<u>850,017</u>	<u>607,695</u>
Gross sales of gas	1,292,746	948,687
Excise tax	(4,459)	(3,703)
Customs duties	<u>(250,812)</u>	<u>(177,526)</u>
Net sales of gas	1,037,475	767,458
Sales of gas condensate and oil and gas products	213,445	122,248
Net sales of crude oil	38,591	-
Gas transportation sales	25,050	29,027
Other revenues	<u>68,984</u>	<u>58,043</u>
	<u>1,383,545</u>	<u>976,776</u>

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24 SALES (continued)

The Group has been providing gas transportation services to its associated undertaking RosUkrEnerg0 AG, transporting through the territory of Russia gas from Central Asia starting from 1 January 2005. Revenue from provision of gas transportation services to RosUkrEnerg0 AG amounted to RR 6,508 in 2005. In 2004 gas from Central Asia was transported by Eural Trans Gas. The Group provided gas transportation services through the territories of Kazakhstan, Uzbekistan and Russia. Revenue from provision of gas transportation services to Eural Trans Gas in 2004 amounted to RR 11,068.

Gas transportation sales to companies of the Itera Group amounted to RR 6,719 and RR 5,980 for the years ended 31 December 2005 and 2004, respectively. Trade receivables in respect of gas transportation services supplied to the Itera Group amounted to nil and RR 1,562 as of 31 December 2005 and 2004, respectively.

The Group also had gas sales in the Russian Federation (net of VAT) to companies of the Itera Group amounting to RR 2,612 and RR 6,657 for the years ended 31 December 2005 and 2004, respectively. Trade receivables in respect of gas sales to the Itera Group amounted to RR 575 and RR 1,079 as of 31 December 2005 and 2004, respectively.

25 OPERATING EXPENSES

	Year ended 31 December	
	2005	2004
Staff costs	168,076	131,453
Depreciation	124,783	110,264
Taxes other than on income	113,966	72,280
Transit of gas, oil and refined products	110,863	103,853
Purchased oil and gas	87,723	66,546
Materials	73,779	64,890
Repairs and maintenance	55,266	40,662
Electricity and heating expenses	33,031	28,882
Cost of goods for resale, including refined products	24,540	18,173
Social expenses	15,674	13,335
Insurance expense	11,800	13,110
Equipment maintenance	11,564	8,349
Rental expenses	9,727	6,247
Transportation services	9,344	9,207
Charge for (release of) impairment provisions	8,774	(22,551)
Research and development	6,544	5,845
Other	<u>64,107</u>	<u>43,620</u>
	929,561	714,165

Staff costs include RR 21,503 and RR 8,600 of expenses associated with pension obligations (see Note 22) for the years ended 31 December 2005 and 2004, respectively.

Taxes other than on income consist of:

	Year ended 31 December	
	2005	2004
Natural resources production tax	87,229	57,507
Property tax	15,269	9,724
Other taxes	<u>11,468</u>	<u>5,049</u>
	113,966	72,280

26 FINANCE INCOME AND EXPENSES

Notes

	Year ended 31 December	
	2005	2004
3 Exchange gains	27,530	48,793
Interest income	25,202	15,605
Gains on and extinguishment of restructured liabilities	<u>1,158</u>	<u>4,934</u>
Total finance income	<u>53,890</u>	<u>69,332</u>

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26 FINANCE INCOME AND EXPENSES (continued)

Notes	Year ended 31 December	
	2005	2004
3 Exchange losses	33,724	28,317
Interest expense	<u>36,202</u>	<u>25,165</u>
Total finance expenses	69,926	53,482

27 RECONCILIATION OF PROFIT, DISCLOSED IN CONSOLIDATED STATEMENT OF INCOME, PREPARED IN ACCORDANCE WITH RUSSIAN ACCOUNTING RULES (RAR) TO PROFIT, DISCLOSED IN IFRS STATEMENT OF INCOME

	Year ended 31 December	
	2005	2004
RAR net profit for the period per consolidated statutory accounts	427,048	203,094
Effects of IFRS adjustments:		
Effect of sales of treasury shares of OAO Rosneftegaz	(144,780)	-
Reclassification of revaluation of RAO UES of Russia shares to equity	(17,186)	-
Differences in depreciation	59,964	1,030
Loan interest capitalized	15,189	16,373
Impairment provisions and other provisions	(16,456)	(9,075)
Write-off of research and development expenses capitalized for RAR purposes	(4,222)	(629)
Fair value for currency options	(1,577)	1,438
Other effects	<u>(2,049)</u>	<u>(489)</u>
IFRS profit for the period	315,931	211,742

28 EARNINGS PER SHARE

Earnings per share have been calculated by dividing the profit, attributable to equity shareholders 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 21.4 billion and 20.1 billion weighted average shares outstanding for the years ended 31 December 2005 and 2004, respectively.

29 NET CASH PROVIDED BY OPERATING ACTIVITIES

	Year ended 31 December	
	2005	2004
Profit before profit tax	450,115	291,630
Adjustments to profit before profit tax		
Depreciation	124,783	110,264
Charge (release) of impairment provisions and other provisions	27,699	(19,610)
Net unrealised foreign exchange losses (gains)	6,194	(20,476)
Interest expense on borrowings and promissory notes	36,202	25,165
Gains on and extinguishment of restructured liabilities	(1,158)	(4,934)
Losses on disposal of property, plant and equipment	2,746	9,478
Interest income	(25,202)	(15,605)
Gain on disposal of available-for-sale financial assets	(385)	(5,018)
Share of net income from associated undertakings and jointly controlled entities	<u>(11,782)</u>	<u>(8,151)</u>
Total effect of adjustments	159,097	71,113
Increase in long-term assets	(20,021)	(29,631)
Decrease in long-term liabilities	(3,374)	(5,704)
Non-cash additions and disposals of property, plant and equipment and other long-term financial assets	<u>(73,670)</u>	<u>(43,882)</u>
	512,147	283,526

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29 NET CASH PROVIDED BY OPERATING ACTIVITIES (continued)

	Year ended 31 December	
	2005	2005
Changes in working capital		
Increase in accounts receivable and prepayments	(59,288)	(49,400)
Increase in inventories	(26,647)	(18,294)
Increase in other current assets	(42,422)	(9,324)
Increase in accounts payable and accrued charges, excluding interest, dividends and capital construction	27,888	31,587
Increase (decrease) in taxes payable (other than profit tax)	43,171	(10,105)
(Increase) decrease in available-for-sale financial assets and financial assets held for trading	<u>(28,151)</u>	<u>3,186</u>
Total effect of working capital changes	(85,449)	(52,350)
Profit tax paid	<u>(154,081)</u>	<u>(49,026)</u>
Net cash provided by operating activities	272,617	182,150

Total cash taxes paid in 2005 and 2004:

	Year ended 31 December	
	2005	2004
Customs duties	289,196	182,768
Profit tax	154,081	49,026
Natural resources production tax	90,357	57,717
VAT	67,655	65,367
Unified social tax	22,725	21,394
Personal income tax	18,297	15,366
Property tax	13,344	11,413
Excise	12,502	31,183
Other	<u>6,043</u>	<u>6,209</u>
Total taxes paid	674,200	440,443

30 SUBSIDIARY UNDERTAKINGS

Subsidiary undertaking	Location	% of share capital as of 31 December	
		2005	2004
ZAO Archinskoe*	Russia	100	-
Arosgas Holding AG**	Austria	100	-
OOO Astrakhangazprom	Russia	100	100
OA0 Azot (Kemerovo)	Russia	75	75
OOO Bashtransgaz	Russia	100	100
OA0 Belozerniy GPK	Russia	100	100
OOO Burgaz	Russia	100	100
OA0 Gazavtomatika***	Russia	49	49
OA0 Gazenergосervice	Russia	51	51
OOO Gazexport	Russia	100	100
OOO Gazflot	Russia	100	100
NPF Gazfund	Russia	100	100
OOO Gazkomplektimpex	Russia	100	100
OOO Gaznadzor	Russia	100	100
OOO GazNeftoTrade	Russia	100	100
OOO Gazobezopasnost	Russia	100	100
OOO Gazpromavia	Russia	100	100
AB Gazprombank (ZAO)	Russia	100	100
OOO Gazpromenergo	Russia	100	100

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30 **SUBSIDIARY UNDERTAKINGS (continued)**

Subsidiary undertaking	Location	% of share capital as of 31 December	
		2005	2004
Gazprom Finance BV	Netherlands	100	100
OOO Gazprominvestholding	Russia	100	100
Gazprom Marketing and Trading Ltd.	United Kingdom	100	100
OA0 Gazprom-Media	Russia	100	100
OOO GazpromPurInvest	Russia	99	99
OA0 Gazpromregiongaz	Russia	100	100
ZAO Gazpromstroyengineering	Russia	100	100
OOO Gazpromtrans	Russia	100	100
OA0 Gazpromtrubinvest	Russia	99	99
OOO Gazsvyaz	Russia	100	100
OOO Gaztorgpromstroy	Russia	100	100
ZAO Gerosgaz	Russia	51	51
OA0 Giprospeftgaz	Russia	60	60
OA0 Gubkinskiy GPK	Russia	100	100
OOO Informgaz	Russia	100	100
OOO IRTs Gazprom	Russia	100	100
OOO Kaspygazprom	Russia	100	100
OA0 Kauchuk	Russia	100	100
ZAO Kaunasskaya power station	Lithuania	99	99
OOO Kavkaztransgaz	Russia	100	100
OA0 Khimprom	Russia	100	100
OOO Kommerts Investments**	Russia	100	100
OA0 Krasnodargazstroy	Russia	51	51
OOO Krasnoyarsgazdobycha	Russia	100	100
OA0 Krasnoyarskgazprom	Russia	75	75
OA0 Krasnoyarskiy ZSK	Russia	97	53
OOO Kubangazprom	Russia	100	100
ZAO Kuzbassnefteproduct*	Russia	100	-
Leadville Investments Ltd.	Cyprus	100	100
OA0 Lengazspecstroy	Russia	63	63
OOO Lentransgaz	Russia	100	100
OOO Liquefied gas	Russia	100	100
OA0 Meretoyakhaneftgaz*	Russia	67	-
OOO Mezhrefiongaz	Russia	100	100
OOO Mostransgaz	Russia	100	100
OOO Nadymgazprom	Russia	100	100
OOO Nadymstroygazdobytcha	Russia	100	100
OOO Neftekhim-Leasing	Russia	100	100
OOO Neftyanaya Kompaniya Sibneft-Yugra*	Russia	99	-
OA0 Nizhnevartovskiy GPK	Russia	100	100
ZAO Novokuybishevsk petrochemical company	Russia	100	100
OOO Novourengoysky GCC	Russia	100	100
OOO Novye finansovye technologii**	Russia	100	100
OOO Noyabrskgazdobycha	Russia	100	100
OA0 NTV-PLUS	Russia	76	76
OOO Nyagangazpererabotka	Russia	100	100
OA0 Omskshina	Russia	83	66
OOO Orenburggazprom	Russia	100	100
OA0 Orton	Russia	71	36
OOO Permtransgaz	Russia	100	100
OA0 Plastic	Russia	66	64

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30 **SUBSIDIARY UNDERTAKINGS (continued)**

Subsidiary undertaking	Location	% of share capital as of 31 December	
		2005	2004
OOO Podzemgazprom	Russia	100	100
ZAO Purgaz	Russia	51	51
OOO Purgazodobycha	Russia	100	100
OOO Regional'naya finansovaya kompaniya**	Russia	100	100
OOO Regional'naya investitsionnaya kompaniya**	Russia	98	98
ZAO Regiongazholding	Russia	56	56
ZAO Rosshelf	Russia	53	53
OOO Samaratransgaz	Russia	100	100
OAo Saranskiy zavod "Rezinotekhnika"	Russia	92	92
OOO Severgazprom	Russia	100	100
ZAO Sevmorneftegaz	Russia	100	58
OOO Shinginskoe*	Russia	100	-
OAo Sibneft*	Russia	76	-
OOO Sibneft-AZS Service*	Russia	100	-
OOO Sibneft-Chukotka*	Russia	100	-
OOO Sibneft-Khantos*	Russia	100	-
OAo Sibneft-Noyabrskneftegaz*	Russia	100	-
OAo Sibneft-Noyabrskneftegazgeophysika*	Russia	81	-
Sibneft Oil Trade Company GmbH*	Austria	100	-
OAo Sibneft-Omskiy NPZ*	Russia	100	-
OAo Sibneft-Omsknefteproduct*	Russia	100	-
OAo Sibneft-Tyumennefteproduct*	Russia	90	-
Sib Oil Trade Ltd*	Virgin Islands	100	-
OAo AK Sibur	Russia	99	99
OOO Sibur-Europe	Switzerland	100	100
ZAO Sibur-Gazservice	Russia	100	100
OOO Sibur-Geotekstil	Russia	100	100
OAo Sibur Holding	Russia	100	-
ZAO Sibur-Khimprom	Russia	100	100
OAo Sibur-Neftekhim	Russia	100	83
OAo Sibur-PETF	Russia	100	100
OOO Sibur-Russian-Tires	Russia	100	100
OAo Sibur-Tyumen	Russia	100	100
OAo Sibur-Tyumen-Gaz	Russia	100	100
OAo Sibur-Volzhskiy	Russia	100	100
AKB Sovfintrade	Russia	99	94
ZAO Spec'cisterni	Russia	100	100
OAo Spetsgazavtotrans	Russia	51	51
ZAO Stimul	Russia	100	100
OOO Surgutgazprom	Russia	100	100
OOO Tattransgaz	Russia	100	100
OOO Tobolsk-Neftekhim	Russia	100	100
OOO Tolyattikauchuk	Russia	100	100
OOO Tomskneftekhim	Russia	100	93
OOO Tomsk petrochemical plant	Russia	100	100
OAo Tomskpolimerprom	Russia	80	100
OOO Tomsktransgaz	Russia	100	100
OOO Trade Garant**	Russia	100	100
OAo Tsentrenergogaz	Russia	62	62
OAo Tsentrgez	Russia	99	99
OAo TV Company NTV	Russia	69	69

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30 **SUBSIDIARY UNDERTAKINGS (continued)**

Subsidiary undertaking	Location	% of share capital as of 31 December	
		2005	2004
OOO TyumenNIIgiprogaz	Russia	100	100
OOO Tyumentransgaz	Russia	100	100
OAo Uralorgsintez	Russia	88	67
OOO Uralskiy Tire Plant	Russia	100	100
OOO Uraltransgaz	Russia	100	100
OOO Urengoygazprom	Russia	100	100
OOO VNIlgaz	Russia	100	100
OAo Volgogradneftemash	Russia	51	51
OOO Volgogradtransgaz	Russia	100	100
OOO Volgotransgaz	Russia	100	100
OAo VoltairProm	Russia	82	82
OAo Volzhskiy air-nitrogen plant	Russia	51	51
OAo Voronezhsintezkauchuk	Russia	75	75
OAo Vostokgazprom	Russia	99	99
ZAO Yamalgazinvest	Russia	100	100
OOO Yamburggazdobycha	Russia	100	100
OAo Yaroslavsky tire plant	Russia	88	75
OOO Yugtransgaz	Russia	100	100
OAo Yuzhno-Balykskiy GPK	Russia	100	100
OAo Zapsibgazprom	Russia	77	77
Zarubezhgaz Erdgashandel Gesellschaft mbH (ZGG)	Germany	100	100
Zarubezhgaz Management und BeteiligungsGesellschaft mbH (ZMB)	Germany	100	100

* Subsidiaries acquired within acquisition of OAo Sibneft

** Subsidiaries of AB Gazprombank (ZAO)

*** The Group controls 66% of voting rights

OAo Sibneft

In September 2005 the Group purchased a 3.016% interest in OAo Sibneft for RR 16,408 and in October 2005 the Group purchased a further 72.66% interest in OAo Sibneft for USD 13,079 million in cash. To finance this transaction, in October 2005 the Group borrowed from a bank syndicate USD 13,080 million (see Note 19). In 2005 the Group repaid USD 8,000 million of the loans received. In addition, in 2006 up to the date of these consolidated financial statements the Group repaid USD 2,580 million of its debt related to the acquisition of OAo Sibneft. Subsequent to acquisition OAo Sibneft was renamed to OAo Gazprom Neft effective from June 2006.

The assets and liabilities of Sibneft as of 31 December 2005 and income and expenses for the period from the date control was established by the Group were consolidated in the Group's consolidated financial statements.

Sibneft contributed revenue of RR 90,989 and profit of RR 15,270 to the Group for the period from the date of acquisition to 31 December 2005. If the acquisition had occurred on 1 January 2005, Group revenue for 2005 would have been RR 1,705,122 and profit for 2005 would have been RR 386,027.

These amounts have been calculated using the Group's accounting policies and adjusting the results of the subsidiary to reflect additional depreciation and amortization that would have been changed assuming the fair value adjustments to property, plant and equipment had applied from 1 January 2005, together with the consequential tax effects.

Prior to the acquisition, OAo Sibneft declared dividends for the year ended 31 December 2004. Such dividends were payable to the shareholders of record as of a date prior to the acquisition. Dividends in the amount of RR 14,682 were paid by OAo Sibneft to these shareholders after the date of the acquisition by OAo Gazprom. This amount was recorded as a liability in the allocation of the purchase price and is included into the line "Dividends paid by subsidiary to previous and minority shareholders" in the IFRS consolidated statement of cash flows for the year ended 31 December 2005.

30 SUBSIDIARY UNDERTAKINGS (continued)

Details of the assets and liabilities acquired are as follows:

	Carrying amount immediately before business combination	Attributed fair value
Cash and cash equivalents	8,985	8,985
Accounts receivable and prepayments	55,988	58,401
Inventory	14,708	13,969
Other current assets	26,481	24,117
Property, plant and equipment:		
Production licenses	-	152,720
Wells	24,791	89,218
Other operating assets	41,498	155,480
Assets under construction	42,110	46,752
Investments in associated undertakings	71,657	170,912
Other non-current assets	5,414	6,760
Accounts payable and accrued charges	(55,834)	(56,076)
Short-term borrowings and current portion of long-term borrowings	(6,655)	(8,783)
Long-term borrowings	(40,136)	(40,869)
Deferred income tax liability	(3,480)	(96,404)
Other non-current liabilities	-	(7,649)
Fair value of net assets of subsidiary		517,533
Less: minority interest		(126,779)
Fair value of acquired interest in net assets of subsidiary		390,754
Total purchase consideration		390,754
Less: cash and cash equivalents of subsidiary acquired		(8,985)
Outflow of cash and cash equivalents on acquisition		381,769

Fair values of assets and liabilities acquired were determined in accordance with IFRS 3. Management have commissioned an independent assessment of the fair value of the assets and liabilities acquired. The appraisal was not complete at the time of finalising these financial statements. The amounts recognised in respect of property, plant and equipment, and the corresponding tax balances arising on the acquisition are therefore determined on a provisional basis. Management is required to finalise the accounting within 12 months of the date of acquisition. Any revisions to the provisional values will be reflected from the acquisition date.

ZAO Sevmorneftegaz

In December 2004 the Group signed agreements and paid RR 6,291 in cash to acquire from OAO NK Rosneft a 49.95% interest in the joint activity that had been established to develop the Arctic shelf (Prirazlomnoye and Schtokmanovskoye fields) in the Barents and Pechora Seas. In December 2004 the Group purchased from OAO NK Rosneft-Purneftegaz an 8.0% interest in the share capital of ZAO Sevmorneftegaz, an operator of specified joint activity, for RR 5,968 paid in cash. As a result of these transactions the Group increased its interest in ZAO Sevmorneftegaz from 50.0% to 58.0% and became the only participant in the joint activity. As of 31 December 2004 the assets and liabilities of the joint activity and ZAO Sevmorneftegaz were consolidated in the Group's balance sheet.

31 MINORITY INTEREST

In March 2005 the Group purchased the remaining 42% of shares of ZAO Sevmorneftegaz, from OAO NK Rosneft-Purneftegaz for RR 31,335 increasing its share to 100%. Payments for the purchase were made in cash in December 2004.

	Year ended 31 December	
	2005	2004
Minority interest at the beginning of the reporting period	45,551	14,793
Minority interest share of net profit of subsidiary undertakings	4,806	2,293
Net change in minority interest as a result of acquisitions	<u>95,107</u>	<u>28,465</u>
Minority interest at the end of the reporting period	<u>145,464</u>	<u>45,551</u>

As a result of acquisition by the Group of the 75.68% interest in OAO Sibneft in September and October 2005 (see Note 30) minority interest increased by RR 126,779 and as the result of the acquisition of the 42% remaining interest in ZAO Sevmorneftegaz in March 2005 (see Note 30) minority interest decreased by RR 31,335.

32 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".

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 2005 are detailed below.

Government

The Government of the Russian Federation is the ultimate controlling party of OAO Gazprom and has a controlling interest (including both direct and indirect ownership) of over 50% in OAO Gazprom (see Note 23). As of 31 December 2005 38.37% of OAO Gazprom issued shares were directly owned by the Government. The Government does not prepare financial statements for public use. Following the General Meeting of Shareholders in June 2005, the 11 seats on the Board of Directors include six State representatives, three management representatives and two independent 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.

Parties under control of the Government

In the normal course of business the Group enters into transactions with other entities under the Government control. Prices of natural gas sales and electricity tariffs in Russia are regulated by the Federal Tariffs Service ("FTS"). Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

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32 RELATED PARTIES (continued)

As of and for the year ended 31 December 2005 and 2004, respectively, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

Note	As of 31 December 2005		For the year ended 31 December 2005	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with the Government				
	11,968	15,265	-	118,028
	237	965	-	22,558
	185,000	59,883	-	-
	16,280	-	-	-
25	637	29,832	-	113,966
Transactions and balances with other parties under control of the Government				
	-	-	148,836	-
	32,978	-	-	-
25	-	-	-	33,031
	-	5,007	-	-
	-	12,053	-	-
	-	-	1,579	1,066
Note	As of 31 December 2004		For the year ended 31 December 2004	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with the Government				
	4,957	21,220	-	57,949
	343	904	-	23,068
	121,979	48,440	-	-
	8,048	-	-	-
25	933	18,045	-	72,280
Transactions and balances with other parties under control of the Government				
	-	-	116,178	-
	51,724	-	-	-
25	-	-	-	28,882
	-	2,403	-	-
	-	15,175	-	-
	-	-	689	1,062

Gas sales and respective accounts receivable, electricity and heating expenses and respective accounts payable included in the table above are related to major State controlled utility companies.

See consolidated statement of changes in equity for returns of social assets to governmental authorities during the years ended 31 December 2005 and 2004. See Note 11 for net book values as of 31 December 2005 and 2004 of social assets vested to the Group at privatisation.

Details of the sale of treasury shares to OAO Rosneftgaz, a company 100% owned by the Government are disclosed in Note 23.

See Note 30 for details of acquisition of the 42% interest in ZAO Sevmorneftegaz from NK Rosneft-Purneftegaz, a subsidiary of OAO NK Rosneft, a company 100% controlled by the Government.

Financial guarantees issued by the Group are disclosed in Note 33.

32 RELATED PARTIES (continued)

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of OAO Gazprom) short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies, amounted to approximately RR 1,027 and RR 603 for the years ended 31 December 2005 and 2004, respectively. Such amounts include personal income tax and are net of unified social tax. Government officials, who are directors, do not receive remuneration from the Group. The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement benefit programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Gazfund, and a one-time retirement payments from the Group. Employees of majority of Group companies are eligible for such benefits.

Associated undertakings and jointly controlled entities

During the years ended 31 December 2005 and 2004 the Group sold gas to its associated undertakings in the amount of RR 198,970 and RR 90,223, respectively. Gas is sold to associated undertakings in the Russian Federation mainly at the rates established by the Federal Tariffs Service. Gas is sold outside the Russian Federation (except for that sold to AO Moldovagaz) under long-term contracts based on world commodity prices.

In 2005 the Group recorded sales of gas, produced in Russia and Central Asia, to its associated undertaking RosUkrEnergo AG for the total amount of RR 30,590 (16.6 bcm). During 2005 the Group arranged transportation of this gas to the Ukrainian border. The amount of sales of transportation services was RR 6,508 (see Note 24). The Group purchased gas from RosUkrEnergo AG in the amount of RR 18,385.

During the years ended 31 December 2005 and 2004 the Group recorded sales of gas to OAO Mosenergo in the amount of RR 24,470 and RR 9,791, respectively (see Note 12).

Included within investments in associated undertakings (see Note 12) is a loan receivable from SGT EuRoPol GAZ S.A., in the amount of RR 20,340 and RR 21,494 as of 31 December 2005 and 2004, respectively, issued by AB Gazprombank (ZAO), a subsidiary of the Group, at an interest rate of LIBOR + 2.6%.

Included within short-term accounts receivable and prepayments (see Note 9) are accounts receivable from Group associated undertakings in the amount of RR 40,362 and RR 19,600 as of 31 December 2005 and 2004, respectively.

Included within long-term accounts receivable and prepayments (see Note 13) are accounts receivable from Group associated undertakings in the amount of RR 20,773 and RR 23,191 as of 31 December 2005 and 2004, respectively, including USD and Euro denominated long-term receivables from SGT EuRoPol GAZ S.A. in the amount of RR 5,960 and RR 7,053 as of 31 December 2005 and 2004, respectively.

32 RELATED PARTIES (continued)

Also included within long-term accounts receivable and prepayments is a Euro denominated loan receivable from WINGAS GmbH in the amount of RR 13,086 and RR 14,474 as of 31 December 2005 and 2004, respectively. The interest rates vary for the different loan tranches. As of 31 December 2005 and 2004 the average effective interest rate for the loan receivable from WINGAS GmbH was Libor+1.25%.

The Group's impairment provision on accounts receivable included RR 18,938 and RR 17,331 in respect of amounts due from AO Moldovagaz as of 31 December 2005 and 2004, respectively.

In 2005 and 2004 the Group purchased gas from AO KazRosGaz for RR 5,428 and RR 691, respectively.

In addition, the Group purchased gas transportation services from certain of its associated undertakings, principally EuRoPol GAZ S.A., which amounted to RR 21,810 and RR 17,793 for the years ended 31 December 2005 and 2004, 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 4,162 and RR 3,886 as of 31 December 2005 and 2004, respectively.

OAO Stroytransgaz

OAO Stroytransgaz is a major Russian constructor of pipelines, compressor stations and other assets. 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 the years ended 31 December 2005 and 2004 transactions with OAO Stroytransgaz were entered into under framework 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 16,593 and RR 22,304 for the years ended 31 December 2005 and 2004, respectively. As of 31 December 2005 and 2004, the Group had advances and receivables due from OAO Stroytransgaz in the amounts of RR 3,603 and RR 2,509, respectively. As of 31 December 2005 and 2004, the Group had accounts payable to OAO Stroytransgaz for construction contracts of RR 2,781 and RR 5,795, respectively.

33 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 results of operations or financial position of the Group.

33 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS (continued)

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 (including those transactions and activities of Sibneft before it was acquired by 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, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, 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 of 31 December 2005 management believe that its interpretation of the relevant legislation is appropriate and all of 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, and other government initiatives could each have a significant, but undeterminable, effect on enterprises operating in the Group.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be reliably 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	
	2005	2004
Outstanding guarantees issued on behalf of :		
BSPC	35,916	34,325
Interconnector (UK) Limited	-	30,524
Gaztransit	2,795	3,160
NAK Naftogaz Ukraine	-	744
Other	<u>7,398</u>	<u>6,258</u>
	<u>46,109</u>	<u>75,011</u>

Included in financial guarantees are amounts denominated in USD 1,459 million and USD 2,592 million as of 31 December 2005 and 2004, respectively.

33 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS (continued)

In July 2005 BSPC B.V. refinanced some of the existing liabilities, guaranteed by the Group, by means of repayment of the liabilities to a group of Italian and Japanese banks. For the purpose of this transaction loans in the amount of USD 1,185.3 million were received from Gazstream S.A. The Group guaranteed the above loans. As of 31 December 2005 and 2004, outstanding amounts of these loans were RR 34,920 (USD 1,213 million) and RR 33,326 (USD 1,201 million), respectively, which were guaranteed by the Group, pursuant to its obligations.

As of 31 December 2005 and 2004 BSPC also borrowed RR 996 (USD 35 million) and RR 999 (USD 36 million) of new credit facilities, provided by Depfa bank, which were guaranteed by the Group.

During 2005 the lessors of Interconnector (UK) Ltd discharged the Group of its obligations under guarantees provided by the Group in accordance with lease contracts concluded by Interconnector (UK) Ltd and its lessors.

Line "Other" includes mainly guarantees issued by AB Gazprombank (ZAO) to third parties of RR 5,616 and RR 3,942 as of 31 December 2005 and 2004, respectively.

Other guarantees

As of 31 December 2005 26.1% of common shares and 15.5% of preferred shares of OAO Stroytransgaz, held by the Group (see Note 12), were pledged as a guarantee of the loan received from OAO Vneshtorgbank.

As of 31 December 2005 the Group's banking subsidiaries and NPF Gazfund have pledged RR 1,452 of corporate bonds included in assets held for trading (see Note 8) and RR 827 of treasury shares (see Note 23) under repurchase agreements.

As of 31 December 2005 the Group has pledged RR 10,290 (USD 358 million) of US T-bills included in short-term available-for-sale financial assets (see Note 8) as a guarantee of the loan received from Dresdner Bank AG.

Capital commitments

In the normal course of business, the Group has entered into contracts for the purchase of property, plant and equipment. The Management Committee has approved and submitted to the Board of Directors the amended capital expenditure budget for 2006 of RR 286,195.

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 2005 no loss is expected to result from these long-term commitments.

Loan commitments

As of 31 December 2005 and 2004 the Group banking subsidiary AB Gazprombank (ZAO) had undrawn loan commitments related to credit facilities issued to external customers in amounts of RR 48,626 and RR 21,603, respectively.

34 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.

34 FINANCIAL RISK FACTORS (continued)

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 12 and 30), 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 fixed rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimize potential adverse effects on the financial performance of the Group.

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.

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.

35 POST BALANCE SHEET EVENTS

Investments

In June 2006 the Group entered into a preliminary agreement to purchase 19,9% interest in OAO Novatek at market terms. According to the preliminary agreement the Group will have two members out of eight in the Board of Directors of OAO Novatek. The acquisition is expected to be completed in August 2006. OAO Novatek is the largest independent gas producer in Russia.

In June 2006 OAO Gazprom and OOO Itera Oil & Gas Company signed an agreement whereby OOO Itera Oil & Gas Company will take part in expanding, reconstructing and modernizing the Gazprom Unified Gas Supply System. The Group and OOO Itera Oil & Gas Company will also join efforts to develop and implement a project aimed at erecting infrastructure for the transmission of gas condensate from its production facilities (located on the fields developed by both companies) to final consumers. Additionally, the companies will take part in creating joint oil and gas chemicals production facilities.

In May and June 2006 the Group signed agreements with OOO Group Evrofinance to acquire additional ownership interests in media-companies, including 23.52% of OAO NTV-Plus and 30.56% of OAO TV Company NTV for RR 2,171. Through the date of these financial statements the Group fully repaid its debt related to the acquisition of the companies.

35 POST BALANCE SHEET EVENTS (continued)

In April 2006 OAO Gazprom and BASF AG entered into an agreement to swap certain assets related to the development of the Yuzhno-Russkoye field in the Western Siberia. According to the agreement BASF AG will receive 25% minus one voting share as well as a 10% of non-voting shares in ZAO Severneftegazprom. ZAO Severneftegazprom is developing the Yuzhno-Russkoye field. OAO Gazprom will increase its share in WINGAZ GmbH from 35% to 50% minus one share and will receive a 49% interest in Libyan oil concessions (C97, C98).

Equity and reserves

In April 2006 OAO Gazprom commenced the implementation of the program on I Level American Depositary Receipts (ADR), under which the ordinary shares of OAO Gazprom can be converted into and out of ADR. The Bank of New York acts as a depositary bank. I Level ADR of OAO Gazprom are marketable on the over-the-counter market of the US and European stock markets. The maximum volume of shares which may be denominated in ADR does not exceed 35% of OAO Gazprom's charter capital. ADR for OAO Gazprom shares issued in 1996 under the program for private placement are automatically converted into I Level ADR.

Borrowings

In April 2006 the Group concluded an agreement to receive a non-secured syndicated loan amounting to USD 1,526 million due in 2010 at an interest rate of LIBOR + 0.55% to refinance existing obligations to Calyon bank and ABN AMRO. This loan is arranged by ABN AMRO.

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