

**OAO GAZPROM
IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2006**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OAO Gazprom

- 1 We have audited the accompanying consolidated financial statements of OAO Gazprom and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated statement of income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

- 2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

- 3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion


- 6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.
- 7 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.

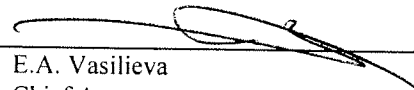
ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
20 June 2007

OA O GAZPROM
IFRS CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2006
(In millions of Russian Roubles)

Notes	31 December		
	2006	2005	
Assets			
Current assets			
7	Cash and cash equivalents	269,224	146,866
7	Restricted cash	12,356	18,040
8	Short-term financial assets	106,574	79,001
9	Accounts receivable and prepayments	662,040	394,659
10	Inventories	207,459	169,121
	VAT recoverable	140,305	145,484
	Other current assets	<u>84,347</u>	<u>48,282</u>
		1,482,305	1,001,453
Non-current assets			
11	Property, plant and equipment	3,034,968	2,791,011
12, 32	Investments in associated undertakings and jointly controlled entities	318,142	233,782
13	Long-term accounts receivable and prepayments	251,123	179,187
14	Available-for-sale long-term financial assets	150,874	67,847
15	Other non-current assets	<u>72,513</u>	<u>65,814</u>
		<u>3,827,620</u>	<u>3,337,641</u>
	Total assets	5,309,925	4,339,094
Liabilities and equity			
Current liabilities			
16	Accounts payable and accrued charges	398,126	219,983
20	Current profit tax payable	18,957	15,265
17	Other taxes payable	49,423	89,552
18	Short-term borrowings and current portion of long-term borrowings	290,705	180,959
18	Short-term promissory notes payable	<u>102,859</u>	<u>20,710</u>
		860,070	526,469
Non-current liabilities			
19	Long-term borrowings	668,343	741,849
19	Long-term promissory notes payable	17,186	10,639
	Restructured tax liabilities	822	1,128
22	Provisions for liabilities and charges	119,578	83,794
20	Deferred tax liabilities	275,508	251,868
	Other non-current liabilities	<u>18,598</u>	<u>4,613</u>
		<u>1,100,035</u>	<u>1,093,891</u>
	Total liabilities	1,960,105	1,620,360
Equity			
23	Share capital	325,194	325,194
23	Treasury shares	(41,801)	(19,504)
23	Retained earnings and other reserves	<u>2,905,065</u>	<u>2,270,727</u>
		3,188,458	2,576,417
31	Minority interest	<u>161,362</u>	<u>142,317</u>
	Total equity	3,349,820	2,718,734
	Total liabilities and equity	5,309,925	4,339,094



A.B. Miller
Chairman of the Management Committee
20 June 2007

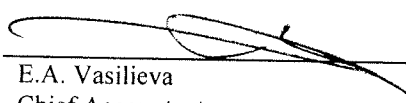

E.A. Vasilieva
Chief Accountant
20 June 2007

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

AO GAZPROM
IFRS CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2006
(In millions of Russian Roubles)

Notes		Year ended 31 December	
		2006	2005
24	Sales	2,152,111	1,383,545
25	Operating expenses	(1,363,923)	(929,561)
	Operating profit	788,188	453,984
26	Finance income	97,923	53,890
26	Finance expense	(65,220)	(69,926)
12	Share of net income of associated undertakings and jointly controlled entities	26,363	11,782
	Gain on disposal of available-for-sale financial assets	<u>8,811</u>	<u>385</u>
	Profit before profit tax	856,065	450,115
	Current profit tax expense	(213,844)	(118,028)
	Deferred profit tax expense	<u>(5,760)</u>	<u>(16,156)</u>
20	Profit tax expense	(219,604)	(134,184)
	Profit for the period	636,461	315,931
	Attributable to:		
	Equity holders of OAO Gazprom	613,345	311,125
31	Minority interest	<u>23,116</u>	<u>4,806</u>
		636,461	315,931
28	Basic and diluted earnings per share for profit attributable to the equity holders of OAO Gazprom (in Roubles)	26.90	14.55



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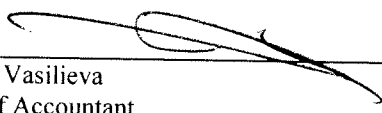

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OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006
(In millions of Russian Roubles)

Notes	Year ended 31 December	
	2006	2005
	Operating activities	
29	Net cash provided by operating activities	544,088
	Investing activities	
11	Capital expenditures	(441,001)
	Net change in loans made	(20,736)
	Interest received	34,501
11	Interest capitalised	(17,275)
30	Acquisition of subsidiaries, net of cash acquired	(5,091)
	Acquisition of associated undertakings and jointly controlled entities	(60,182)
	Proceeds from associated undertakings and jointly controlled entities	423
	Purchases of long-term available-for-sale financial assets	(1,653)
	Change in other long-term financial assets	(1,237)
	Net cash used for investing activities	(512,251)
	Financing activities	
19	Proceeds from long-term borrowings (including current portion)	188,727
19	Repayment of long-term borrowings (including current portion)	(179,262)
	Net proceeds from issue of promissory notes	89,210
18	Net proceeds from short-term borrowings	54,269
23	Dividends paid	(33,898)
30	Dividends paid by subsidiaries to previous and minority shareholders	-
	Interest paid	(38,668)
23	Purchases of treasury shares	(246,535)
23	Sales of treasury shares	254,887
7	Change in restricted cash	5,684
	Net cash provided by financing activities	94,414
	Effect of exchange rate changes on cash and cash equivalents	(3,893)
	Increase in cash and cash equivalents	122,358
	Cash and cash equivalents, at the beginning of reporting period	146,866
	Cash and cash equivalents, at the end of reporting period	269,224



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OA0 GAZPROM
IFRS CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006
(In millions of Russian Roubles)

Notes	Number of shares outstanding (billions)	Attributable to equity holders of OAO Gazprom				Total	Minority interest	Total equity
		Share capital	Treasury shares	Retained earnings and other reserves				
	Balance as of 31 December 2004	20.1	325,194	(41,586)	1,808,865	2,092,473	45,551	2,138,024
	Gains arising from change in fair value of available-for-sale financial assets, net of profit tax				16,484	16,484	-	16,484
23	Translation differences				(4,572)	(4,572)	-	(4,572)
	Net gain recognised directly in equity				11,912	11,912	-	11,912
	Profit for the period				311,125	311,125	4,806	315,931
	Total recognised income for the period							
23	Net treasury shares transactions	2.8			323,037	323,037	4,806	327,843
23	Return of social assets to governmental authorities			22,082	164,845	186,927	-	186,927
23	Dividends				(2,162)	(2,162)	-	(2,162)
31	Business combinations and purchase of minority interest				(23,858)	(23,858)	-	(23,858)
							91,960	91,960
	Balance as of 31 December 2005	22.9	325,194	(19,504)	2,270,727	2,576,417	142,317	2,718,734
	Gains arising from change in fair value of available-for-sale financial assets, net of profit tax				57,129	57,129	-	57,129
23	Translation differences				(236)	(236)	-	(236)
	Net gain recognised directly in equity				56,893	56,893	-	56,893
	Profit for the period				613,345	613,345	23,116	636,461
	Total recognised income for the period							
23	Net treasury shares transactions	0.0			670,238	670,238	23,116	693,354
23	Return of social assets to governmental authorities			(22,297)	12,895	(9,402)	-	(9,402)
23	Dividends				(14,562)	(14,562)	-	(14,562)
31	Business combinations and purchase of minority interest				(34,233)	(34,233)	(9,110)	(43,343)
							5,039	5,039
	Balance as of 31 December 2006	22.9	325,194	(41,801)	2,905,065	3,188,458	161,362	3,349,820


A.B. Miller
Chairman of the Management Committee
10 June 2007


E.A. Vasilieva
Chief Accountant
10 June 2007

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

1 NATURE OF OPERATIONS

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

Group provides production of oil and oil products. Subsequent to acquisition of a controlling interest in October 2005 in AO Siberian Oil Company, renamed to OAO Gazprom Neft effective from June 2006, the Group’s production of crude oil and processing of oil significantly increased. The Group is involved in the following principal activities:

- Exploration and production of gas;
- Transportation of gas;
- Domestic and export sale of gas;
- Production of crude oil and gas condensate; and
- Processing of oil, gas condensate and other hydrocarbons and sales of refined products.

Other activities primarily comprise banking, construction and media.

The weighted average number of full time employees during 2006 and 2005 was 440 thousand and 402 thousand, respectively. The average number of employees includes OAO Gazprom Neft and its consolidated subsidiaries (“Gazprom Neft”).

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 for certain financial instruments as described in Note 4. 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).

Certain reclassifications have been made to prior period balances to reflect the revisions to the provisional amounts of assets and liabilities of Gazprom Neft (see Note 30).

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognized 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 "Business Combinations", 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.

The equity method involves recognising in the consolidated 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 consolidated 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 recognized in equity. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss 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 categorized 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 realized 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 2006 and 2005.

(b) 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 for at cost. The fair value of unquoted debt instruments classified as available-for-sale financial assets is determined using discounted cash flow valuation techniques based on prevailing market interest rate for 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 recognized in equity and shown net of income tax in the consolidated statement of changes 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 recognized in the consolidated statement of income.

Impairment of financial assets

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 Derivative financial instruments

As part of trading activities, primarily by the banking subsidiaries, the Group is also party to derivative financial instruments including forward and options contracts in foreign exchange and 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group routinely enters into sale and purchase transactions for the purchase and sales of gas, oil, oil products and other goods. The majority of these transactions are entered to meet supply requirements to fulfil contract obligations and for own consumption and are not within the scope of IAS 39 “Financial instruments: recognition and measurement”.

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 consolidated income statement in the period in which they arise.

4.4 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.

4.5 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.

4.6 Accounts receivable

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. The provision for impairment of trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. 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 borrowings at the date of origination of the receivable.

4.7 Value added tax (VAT)

Output VAT added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated balance sheet 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.

4.8 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.

4.9 Property, plant and equipment

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

Gas and oil exploration and production activities are accounted for in accordance with the successful efforts method. Under the successful efforts method, costs of successful development and exploratory wells are capitalised.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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 and the World Petroleum Congress, 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:

Pipelines	<u>Years</u> 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. The difference between straight line and units-of-production is not material for these consolidated financial statements. Assets under construction are not depreciated until they are placed in service.

Depreciation expenses in the consolidated statement of income do not include depreciation, that is considered a cost of self-constructed assets and thus capitalized rather than expensed and depreciation that is capitalized as a component of gas inventories.

4.10 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)

4.11 Borrowings

Borrowings are recognised initially at their fair value 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 interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

4.12 Deferred tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using 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 undertakings and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

4.13 Foreign currency transactions

Monetary assets and liabilities held by the Group as of 31 December 2006 and 2005 and denominated in foreign currencies are translated into Russian Roubles at the official exchange rates prevailing at those dates. 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 26.33 and 28.78 as of 31 December 2006 and 2005, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 34.70 and 34.19 as of 31 December 2006 and 2005, respectively.

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

4.14 Provisions for liabilities and charges

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

4.15 Equity

Treasury shares

When 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. When 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.

A contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount. When the financial liability is recognised initially its fair value is reclassified from equity. The premium received for a written option is added directly to equity.

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.

4.16 Revenue recognition

Sales are recognised for financial reporting purposes when products are delivered to customers and title passes and are stated net of VAT, excise taxes and other similar compulsory payments. Gas transportation sales are recognized 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.

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.

Sales and purchases that are expected to be settled by mutual settlements, barter or other non-cash settlements are recognised based on fair value of consideration to be received or given up in non-cash settlements. The fair value is determined with reference to observable market information.

Non-cash transactions have been excluded from the cash flow statement. Investing and financing activities and the total of operating activities represent actual cash flows.

Promissory notes

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

4.17 Interest

Interest income and expense are recognised in the consolidated 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, concerning substantially all employees of the Group. 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 consolidates NPF Gazfund, which administers the Group’s defined benefit plan. Members of Group’s management are trustees of NPF Gazfund. Significant part of assets of NPF Gazfund is represented by shares of ОАО Gazprom. These shares are recognized in the consolidated balance sheet as treasury shares.

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 consolidated 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting for financial guarantee contracts

Financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. 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 less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 “Revenue”.

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 borrower 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

In 2006 the Group has adopted all IFRS, amendments and interpretations which are effective 1 January 2006 and which are relevant to its operations, except for IFRS 6 “Exploration and Evaluation of Mineral Resources”, the amendment to IAS 21 “The Effects of Changes in Foreign Exchange Rates: Net Investment in a Foreign Operation”, the amendments to IAS 39 “Cash Flow Hedge Accounting of Forecast Intragroup Transactions”, “The Fair Value Option” and “Financial Guarantee Contracts”, the amendment to IFRS 4 “Financial Guarantee Contracts”, 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”)” which were all adopted early by the Group in 2005.

Effective 1 January 2006 the Group has applied the amendment to IAS 19 “Employee Benefits—Actuarial Gains and Losses, Group Plans and Disclosures”. 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. No changes in respect of the recognition of actuarial gains and losses were made in the Group’s accounting policies as a result of such adoption.

The adoption of IFRIC 6 “Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment”, IFRIC 7 “Applying the Restatement Approach under IAS 29”, IFRIC 10 “Interim Financial Reporting and Impairment” effective 1 January 2006 did not have a material effect on the consolidated financial statements of the Group.

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.

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” (“IFRS 7”) and Amendment to IAS 1 “Presentation of Financial Statements - Capital Disclosures” (“IAS 1”), which are effective for annual periods beginning on or after 1 January 2007. New IFRS 7 introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity’s key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- risk. IFRS 7 replaces IAS 30 “Disclosures in the Financial Statements of Banks and Similar Financial Institutions”, and some of the requirements in IAS 32 “Financial Instruments: Disclosure and Presentation”. The Amendment to IAS 1 introduces disclosures about level of an entity’s capital and how it manages capital. The Group is currently assessing what impact IFRS 7 and the amendment to IAS 1 will have on disclosures in its financial statements.
- IFRS 8 “Operating Segments”, which is effective for annual periods beginning on or after 1 January 2009. The standard replaces IAS 14 “Segment reporting”. The standard requires an entity to adopt the “management approach” to reporting of performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operations segments. Such information may be different from what is used to prepare the income statement and balance sheet. The IFRS therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognised in the income statement and balance sheet. Management does not expect IFRS 8 to materially affect the Group’s financial statements.
 - Amendment to IAS 23 “Borrowing costs” (“IAS 23”), which is effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 23 removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The application of these amendments is not expected to materially affect the Group’s financial statements.
 - IFRIC 8 “Scope of IFRS 2” (“IFRIC 8”), which is effective for annual periods beginning on or after 1 May 2006. The interpretation explains that, if the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred, this situation typically indicates that other consideration has been or will be received and thus IFRS 2 “Share-based payments” applies. The application of IFRIC 8 is not expected to materially affect the Group’s financial statements.
 - IFRIC 9 “Reassessment of Embedded Derivatives” (“IFRIC 9”), which is effective for annual periods beginning on or after 1 June 2006. 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 materially affect the Group’s financial statements.
 - IFRIC 11 “IFRS 2—Group and Treasury Share Transactions” (“IFRIC 11”), which is effective for annual periods beginning on or after 1 March 2007. The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. The Interpretation also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity’s parent, should be accounted for as cash-settled or equity-settled in the entity’s financial statements. The application of IFRIC 11 is not expected to materially affect the Group’s financial statements.
 - IFRIC 12 “Service Concession Arrangements” (“IFRIC 12”) which is effective for annual periods beginning on or after 1 January 2008. Service concessions are arrangements whereby a government or other public sector entity grants contracts for the supply of public services – such as roads, airports and other facilities – to private sector operators. The interpretation addresses how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements. The group is currently assessing the effect the application of IFRIC 12 may have on the Group’s financial statements.

5 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES**5.1 Tax legislation**

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

5 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)**5.2 Uncertain tax positions**

The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management based on the interpretation of current tax laws. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle tax obligations at the balance sheet date.

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 or lower 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

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 provisions

Accounting for impairment includes provisions against capital construction projects, financial assets, 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. 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).

5.4 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

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5 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

in any of these conditions or estimates may result in adjustments to future depreciation rates.

Management believes hydrocarbon production licenses will be extended past their current expiration dates at insignificant additional costs. Because of the extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

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 the following business segments are identified within the Group:

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

These segments are reflected by the Group’s organizational structure and the Group’s internal financial reporting system.

Certain reclassifications have been made to prior period segment information to conform to the current year presentation. The Group previously disclosed oil and gas condensate sales within refining segment, as production and sales of crude oil and gas condensate segment was not presented separately. Management believes that presentation of crude oil and gas condensate production within a separate segment is a fairer presentation of the Group’s activities following the acquisition of Gazprom Neft (see Note 1) and the related increase in the Group’s oil production business. Changes were made to the segment information and Note 24 “Sales” for the year ended 31 December 2005 to reflect the current period presentation.

	Production of gas	Transport	Distribution	Production of crude oil and gas condensate	Refining	Other	Total
31 December 2006							
Segment assets	938,003	1,535,281	443,162	582,427	316,182	837,760	4,652,815
Associated undertakings and jointly controlled entities	69,116	32,161	22,298	125,443	32,507	36,617	318,142
Unallocated assets							535,875
Inter-segment eliminations							(196,907)
Total assets							5,309,925
Segment liabilities	73,383	165,451	165,071	54,028	69,572	184,107	711,612
Unallocated liabilities							1,445,400
Inter-segment eliminations							(196,907)
Total liabilities							1,960,105
Capital additions	114,023	215,121	19,492	50,972	19,257	13,920	432,785
Depreciation	38,859	73,229	981	35,127	15,268	3,982	167,446
Charge for impairment provisions and other provisions	15,585	16,169	502	1,032	2,438	7,246	42,972
Unallocated impairment provisions and other provisions							499
Total impairment provisions and other provisions							43,471

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6 SEGMENT INFORMATION (continued)

	Production of gas	Transport	Distribution	Production of crude oil and gas condensate	Refining	Other	Total
31 December 2005							
Segment assets	888,256	1,376,760	284,057	467,309	166,093	545,895	3,728,370
Associated undertakings and jointly controlled entities	1,473	33,772	21,907	132,260	18,303	26,067	233,782
Unallocated assets							538,398
Inter-segment eliminations							(161,456)
Total assets							4,339,094
Segment liabilities	65,493	115,063	111,592	31,796	48,969	81,680	454,593
Unallocated liabilities							1,327,225
Inter-segment eliminations							(161,458)
Total liabilities							1,620,360
Capital additions	89,505	150,567	16,393	22,744	16,093	13,729	309,031
Depreciation	36,947	69,192	943	4,965	8,554	4,182	124,783
Charge for impairment provisions and other provisions	8,499	9,251	9,351	-	1,958	1,373	30,432
Unallocated impairment provisions and other provisions							(155)
Total impairment provisions and other provisions							30,277

Segment assets consist primarily of property, plant and equipment and current assets. Unallocated assets include VAT recoverable, cash and cash equivalents, restricted cash and other non-current assets.

Segment liabilities comprise operating liabilities, excluding items such as taxes payable, and provisions for liabilities and charges.

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

	Production of gas	Transport	Distribution	Production of crude oil and gas condensate	Refining	Other	Total
Year ended 31 December 2006							
Segment revenues							
Inter-segment sales	223,437	441,205	41,531	56,752	7,739	-	770,664
External sales	4,242	34,500	1,407,377	171,709	434,985	99,298	2,152,111
Total segment revenues	227,679	475,705	1,448,908	228,461	442,724	99,298	2,922,775
Segment expenses							
Inter-segment expenses	(5,361)	(44,217)	(650,978)	-	(70,108)	-	(770,664)
External expenses	(201,340)	(284,034)	(364,880)	(119,693)	(317,901)	(72,636)	(1,360,484)
Total segment expenses	(206,701)	(328,251)	(1,015,858)	(119,693)	(388,009)	(72,636)	(2,131,148)
Segment result	20,978	147,454	433,050	108,768	54,715	26,662	791,627
Unallocated operating expenses							(3,439)
Operating profit							788,188
Share of net income of associated undertakings and jointly controlled entities	1,488	1,048	5,915	4,777	8,910	4,225	26,363

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6 SEGMENT INFORMATION (continued)

	Production of gas	Transport	Distribution	Production of crude oil and gas condensate	Refining	Other	Total
Year ended 31 December 2005							
Segment revenues							
Inter-segment sales	196,120	332,225	35,246	27,803	5,704	-	597,098
External sales	<u>3,504</u>	<u>25,050</u>	<u>1,033,971</u>	<u>52,591</u>	<u>202,870</u>	<u>65,559</u>	<u>1,383,545</u>
Total segment revenues	199,624	357,275	1,069,217	80,394	208,574	65,559	1,980,643
Segment expenses							
Inter-segment expenses	(4,715)	(37,825)	(515,613)	-	(38,945)	-	(597,098)
External expenses	<u>(181,067)</u>	<u>(261,998)</u>	<u>(233,220)</u>	<u>(40,438)</u>	<u>(141,397)</u>	<u>(49,402)</u>	<u>(907,522)</u>
Total segment expenses	<u>(185,782)</u>	<u>(299,823)</u>	<u>(748,833)</u>	<u>(40,438)</u>	<u>(180,342)</u>	<u>(49,402)</u>	<u>(1,504,620)</u>
Segment result	13,842	57,452	320,384	39,956	28,232	16,157	476,023
Unallocated operating expenses							<u>(22,039)</u>
Operating profit							453,984
Share of net income of associated undertakings and jointly controlled entities	190	1,841	6,509	3,067	175	-	11,782

The inter-segment sales mainly consist of:

- Production of gas - sale of gas to the Distribution segment;
- Transport - rendering transportation services to the Distribution segment;
- Distribution - sale of gas to the Transport segment for own needs;
- Production of crude oil and gas condensate - sale of oil and gas condensate to the Refining segment for further processing;
- Refining - sale of refined hydrocarbon products to other segments.

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. Sales to different geographical regions are disclosed in Note 24.

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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 2,877 and RR 10,954 as of 31 December 2006 and 2005, respectively, which are restricted as to withdrawal under the terms of certain borrowings. In addition, restricted cash comprises cash balances of RR 9,479 and RR 7,086 as of 31 December 2006 and 2005, respectively, in subsidiary banks, which are restricted as to withdrawal under banking regulations.

8 SHORT-TERM FINANCIAL ASSETS

Notes	31 December	
	2006	2005
	Financial assets held for trading:	
33 Corporate bonds	31,462	26,595
Corporate shares	36,444	21,929
Government and municipal bonds	9,388	5,875
Promissory notes	7,522	2,882
Other	<u>-</u>	<u>126</u>
	84,816	57,407
	Available-for-sale financial assets:	
33 Bonds	14,998	10,290
Promissory notes (net of impairment provision of RR 4,353 and RR 5,503 as of 31 December 2006 and 2005, respectively)	<u>6,760</u>	<u>11,304</u>
	21,758	21,594
	106,574	79,001

Financial assets held for trading primarily comprise marketable equity and debt securities held by NPF Gazfund and the Group's banking subsidiaries intended to generate short-term profits.

Financial assets held for trading owned by NPF Gazfund amounted to RR 46,340 and RR 28,849 as of 31 December 2006 and 2005, respectively.

Financial assets held for trading owned by the Group's banking subsidiaries amounted to RR 33,977 and RR 23,579 as of 31 December 2006 and 2005, respectively.

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9 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December	
	2006	2005
Trade receivables (net of impairment provision of RR 66,020 and RR 68,960 as of 31 December 2006 and 2005, respectively)	254,082	181,316
Prepayments and advances (net of impairment provision of RR 1,991 and RR 3,574 as of 31 December 2006 and 2005, respectively)	114,059	79,684
Other receivables (net of impairment provision of RR 23,951 and RR 25,399 as of 31 December 2006 and 2005, respectively)	<u>293,899</u>	<u>133,659</u>
	<u>662,040</u>	<u>394,659</u>

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

As of 31 December 2006 and 2005 RR 199,772 and RR 141,493 of trade receivables, net of impairment provision, respectively, are denominated in foreign currencies, mainly US dollar and Euro.

As of 31 December 2006 and 2005 other receivables include RR 243,735 and RR 109,660, respectively, relating to the operations of AB Gazprombank (ZAO). These balances mainly represent deposits with other banks and loans issued to customers at commercial rates based on credit risks and maturities.

As of 31 December 2006 the average annual interest rate on banking deposits and loans ranged from 5.6% to 14.1% on balances denominated in Russian Roubles and from 2.0% to 10.6% on balances denominated in foreign currencies. As of 31 December 2005 the average annual interest rate on banking deposits and loans ranged from 7.7% to 14.8% on balances denominated in Russian Roubles and 2.3% to 12.4% on balances denominated in foreign currencies.

As of 31 December 2006 and 2005 AB Gazprombank (ZAO) had pledged deposits with banks and other financial institutions of nil and RR 1,566, respectively. These were 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.

Approximately 7% and 10% of accounts receivable settled during the years ended 31 December 2006 and 2005, respectively, were settled via mutual settlements or other non-cash settlements.

10 INVENTORIES

	31 December	
	2006	2005
Gas in pipelines and storage	89,993	76,568
Materials and supplies (net of an obsolescence provision of RR 1,697 and RR 1,712 as of 31 December 2006 and 2005, respectively)	75,450	65,122
Goods for resale (net of an obsolescence provision of RR 155 and RR 210 as of 31 December 2006 and 2005, respectively)	18,041	12,649
Crude oil and refined products	<u>23,975</u>	<u>14,782</u>
	<u>207,459</u>	<u>169,121</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 31.12.04								
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	2,769	2,655	-	223	302,629	309,031
Acquisition of subsidiaries	-	54,793	74,292	42,935	230,708	1,166	36,474	440,368
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	309,278	446,336	536,990	304,344	76,196	340,947	2,791,011
As of 31.12.05								
Cost	1,517,601	529,470	906,902	948,566	305,314	113,109	340,947	4,661,909
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	309,278	446,336	536,990	304,344	76,196	340,947	2,791,011
Depreciation	(41,543)	(15,411)	(42,201)	(32,693)	(29,895)	(2,677)	-	(164,420)
Additions	18	-	13,402	653	-	633	418,079	432,785
Acquisition of subsidiaries	122	-	6,662	3,229	-	-	10,489	20,502
Transfers	103,507	67,749	108,936	90,560	-	4,160	(374,912)	-
Disposals	(22)	(311)	(3,242)	(4,130)	-	(17,597)	(11,644)	(36,946)
Charge for impairment provision	-	-	-	-	-	-	(7,964)	(7,964)
Net book value at 31.12.06	839,002	361,305	529,893	594,609	274,449	60,715	374,995	3,034,968
As of 31.12.06								
Cost	1,621,078	595,817	1,020,655	1,024,589	305,314	90,081	374,995	5,032,529
Accumulated depreciation	(782,076)	(234,512)	(490,762)	(429,980)	(30,865)	(29,366)	-	(1,997,561)
Net book value at 31.12.06	839,002	361,305	529,893	594,609	274,449	60,715	374,995	3,034,968

At each balance sheet date management assesses whether there is any indication that the recoverable value has declined below the carrying value of the property, plant and equipment. As a result of management's assessment of the recoverable amount, assets under construction are presented net of a provision for impairment of RR 91,803 and RR 87,605 as of 31 December 2006 and 2005, respectively. Charges for impairment provision of assets under construction primarily relate to projects that have been indefinitely suspended and currently excluded from the Group's investment program. Operating assets are shown net of provision for impairment of RR 2,574 and RR 1,985 as of 31 December 2006 and 2005, respectively. 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 11,573 and RR 27,406 as of 31 December 2006 and 2005, respectively.

Included in additions above is capitalized interest of RR 17,275 and RR 15,189 for the years ended 31 December 2006 and 2005, respectively. Capitalization rates of 7.0% were used representing the weighted average actual borrowing cost of the relevant borrowings for the years ended 31 December 2006 and 2005.

Included in property, plant and equipment above are fully depreciated assets which are still in service with a gross cost of RR 830,107 and RR 750,502 as of 31 December 2006 and 2005, respectively. Included in additions are non-cash additions of RR 39,907 and RR 68,626 for the years ended 31 December 2006 and 2005, respectively.

Depreciation includes RR 1,548 and RR 1,037 for the years ended 31 December 2006 and 2005, respectively, which is related to equipment used in the construction of assets and thus capitalized rather than expensed in the consolidated statement of income. RR 20,507 and RR 25,633 of depreciation as of 31 December 2006 and 2005, 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 past their current expiration dates at insignificant additional costs. Because of the expected extensions, the assets are being depreciated over their estimated useful lives beyond the end of the current license term.

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12 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES

Notes	Carrying value as of		Group's share of the	
	2006	2005	profit (loss) of the entities for the Year ended 31 December 2006	2005
	140,165	132,802	13,662	3,067
	63,426	-	538	-
32	30,865	32,348	1,174	1,684
32	16,751	7,494	2,571	(65)
	5,643	4,017	834	282
	2,823	1,764	618	301
	2,412	2,170	(77)	(382)
	15,266	15,242	24	(22)
32	6,197	4,113	3,484	2,064
30, 32	-	3,733	203	34
32, 33	3,559	3,441	22	5
32	-	3,235	(2,624)	3,060
	3,109	2,938	352	438
	2,272	1,473	974	181
	1,934	682	1,341	176
	1,756	1,701	179	200
	1,063	1,191	(126)	157
	<u>20,901</u>	<u>15,438</u>	<u>3,214</u>	<u>602</u>
	318,142	233,782	26,363	11,782

	For the Year ended	
	31 December	
	2006	2005
Balance at the beginning of the reporting period	233,782	81,783
Share of net income of associated undertakings and jointly controlled entities	26,363	11,782
Distribution from associated undertakings and jointly controlled entities	(12,125)	(11,787)
Translation differences	(265)	(925)
Net acquisitions	<u>70,387</u>	<u>152,929</u>
Balance at the end of the reporting period	318,142	233,782

In September 2006, the Group acquired 19.39% interest in OAO Novatek for USD 2,338 million payable in cash. As a result of the acquisition and considering the subsequent Board of Directors elections whereby the Group has appointed two of eight Board members, the Group has accounted for its investments in OAO Novatek as investments in associated undertakings.

In July 2006 the Group acquired an additional 4.72% interest in OAO Mosenergo and companies established under its restructuring for USD 350 million, increasing its interest to 29.89%.

Investments in OAO NGK Slavneft and OAO Moskovsky NPZ were acquired in 2005 on the acquisition of Gazprom Neft. 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.

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Investment in RosUkrEnerg0 AG with a carrying value of nil and RR 3,235 as of 31 December 2006 and 31 December 2005 is stated net of unrealized profit in the amount of RR 5,166 and RR 6,500 arising from the Group's gas sales to RosUkrEnerg0 AG (see Note 32).

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

	Assets	Liabilities	Revenues*	Profit (loss)*
31 December 2006				
OA0 NGK Slavneft	367,224	86,062	173,376	27,405
OA0 Novatek	84,326	15,650	11,726	2,777
SGT EuRoPol GAZ	57,819	29,465	11,760	2,447
OA0 Mosenergo	75,958	36,844	67,243	8,596
OA0 Moscow united Electricity Network Company**	47,626	17,601	25,448	2,989
OA0 Moscow city Electricity Network Company**	19,580	2,242	10,069	2,140
OA0 Moscow Heating Network Company**	16,982	4,648	11,524	(276)
OA0 Moskovsky NPZ	42,931	3,615	6,884	63
WINGAS GmbH	126,930	119,023	208,639	11,027
OA0 Stroytransgaz	46,285	27,214	45,923	669
RosUkrEnerg0 AG	115,256	94,036	196,641	21,644
AO Latvijas Gaze	16,515	4,777	8,978	1,034
AO Lietuvos Dujos	23,064	4,478	7,729	587
BSPC	62,094	58,336	6,949	(501)
ZAO Nortgaz	6,277	1,825	5,552	1,980
31 December 2005				
OA0 NGK Slavneft	336,074	69,679	37,326	6,181
SGT EuRoPol GAZ	58,941	33,926	13,183	3,508
OA0 Mosenergo	45,903	19,332	70,717	(259)
OA0 Moscow united Electricity Network Company**	22,939	5,202	10,187	1,128
OA0 Moscow city Electricity Network Company**	11,147	1,411	5,800	1,204
OA0 Moscow Heating Network Company**	11,663	3,138	5,519	(1,529)
OA0 Moskovsky NPZ	42,675	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
RosUkrEnerg0 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)
ZAO Nortgaz	5,475	2,588	4,667	355

* Revenues and profit (loss) of the Group's associated undertakings and jointly controlled entities are disclosed in total for the year 2006, except for OA0 Novatek, and for the year 2005, except for OA0 NGK Slavneft, OA0 Moskovsky NPZ, OA0 Moscow united Electricity Network Company, OA0 Moscow city Electricity Network Company and OA0 Moscow Heating Network Company for which revenues and profit (loss) are disclosed from the date of acquisition.

** OA0 Mosenergo, OA0 Moscow united Electricity Network Company, OA0 Moscow city Electricity Network Company and OA0 Moscow Heating Network Company were established under the restructuring of Mosenergo in 2005.

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

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

	31 December	
	2006	2005
OA O Novatek	98,455	-
OA O Mosenergo (stand alone)	44,491	29,123
AO Latvijas Gaze	6,984	7,310
AO Lietuvos Dujos	6,658	6,741

Principal associated undertakings and jointly controlled entities

Entities	Country	Nature of operations	% of ordinary shares held as of	
			2006	2005
ZAO Achimgaz	Russia	Exploration of oil, gas and other hydrocarbons	50	50
Blue Stream Pipeline company B.V. (BSPC)	Netherlands	Construction, gas transportation	50	50
Bosphorus Gaz Corporation A.S.	Turkey	Gas distribution	40	40
Centrex Beteiligungs GmbH	Germany	Gas distribution	38	38
SGT EuRoPol GAZ	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
TOO KazRosGaz	Kazakhstan	Transportation and gas distribution	50	50
AO Latvijas Gaze	Latvia	Transportation and gas distribution	34	34
AO Lietuvos Dujos	Lithuania	Transportation and gas distribution	37	37
AO Moldovagaz	Moldova	Transportation and gas distribution	50	50
OA O Moskovsky NPZ	Russia	Production and distribution of refined products	39	39
OA O Mosenergo	Russia	Electrical energy and heat production	30	25
OA O Moscow united Electricity Network Company	Russia	Transmission and distribution of electrical energy	28	25
OA O Moscow city Electricity Network Company	Russia	Production, transmission and distribution of electrical energy	28	25
OA O Moscow Heating Network Company	Russia	Transmission of heat energy	28	25
ZAO Nortgaz	Russia	Exploration and production of gas	51	51
OA O Novatek	Russia	Production and distribution of gas	19	-
AO Overgaz Inc.	Bulgaria	Gas distribution	50	50
ZAO 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	50
OA O Sogaz	Russia	Insurance	24	24
ZAO Stella Vitae	Lithuania	Transportation and gas distribution	30	30

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

Entities	Country	Nature of operations	% of ordinary shares held as of 31 December	
			2006	2005
OAO Stroytransgaz	Russia	Construction	18	26
AO Turusgaz	Turkey	Gas distribution	45	45
Vemex s.r.o.	Czech Republic	Gas distribution	33	33
WIEE Romania SRL	Romania	Gas distribution	50	50
WINGAS Storage UK Ltd.	United Kingdom	Underground gas storage reconstruction	33	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	Switzerland	Gas distribution	50	50
Wirom Gas S.A.	Romania	Gas distribution	26	26

13 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December	
	2006	2005
Long-term accounts receivable and prepayments (net of impairment provision of RR 15,085 and RR 14,857 as of 31 December 2006 and 2005, respectively)	191,816	131,869
Advances for assets under construction (net of impairment provision of RR 85 and nil as of 31 December 2006 and 2005, respectively)	<u>59,307</u>	<u>47,318</u>
	251,123	179,187

Long-term accounts receivable and prepayments include amounts due from South Pars of RR 3,082 and RR 7,552, net of impairment provision of RR nil and RR 117 as of 31 December 2006 and 2005, 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 2006 and 2005, long-term accounts receivable and prepayments include RR 99,380 and RR 71,271, 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.

The estimated fair value of long-term accounts receivable, excluding prepayments, is RR 186,605 and RR 129,879 as of 31 December 2006 and 2005, respectively.

14 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

	31 December	
	2006	2005
Equity instruments (RAO UES of Russia)	128,599	54,745
Equity instruments (net of provision for impairment of RR 10,113 and RR 11,456 as of 31 December 2006 and 2005, respectively)	16,482	8,655
Debt instruments (net of provision for impairment of RR 140 and 20 as of 31 December 2006 and 2005, respectively)	<u>5,793</u>	<u>4,447</u>
	150,874	67,847

The Group held a 10.49% interest in the share capital of RAO UES of Russia as of 31 December 2006 and 2005.

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14 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS (continued)

	For the Year ended	
	31 December	
Movements in long-term available-for-sale assets	2006	2005
Balance at the beginning of the reporting period	67,847	28,710
Net effect of adjustments to fair value	73,854	12,173
Available-for-sale assets purchased	9,218	31,812
Available-for-sale assets disposed	(1,916)	(8,851)
Provision accrued on available-for-sale assets	(93)	(1,239)
Provision reversed due to disposal of available-for-sale assets (sold/written-off)	<u>1,964</u>	<u>5,242</u>
Balance at the beginning of the reporting period	<u>150,874</u>	<u>67,847</u>

15 OTHER NON-CURRENT ASSETS

Included within other non-current assets is VAT recoverable related to long-term assets totalling RR 19,530 and RR 24,179 as of 31 December 2006 and 2005, respectively.

16 ACCOUNTS PAYABLE AND ACCRUED CHARGES

	31 December	
	2006	2005
Trade payables	117,332	72,103
Accounts payable for acquisition of property, plant and equipment	59,824	47,226
Advances received	7,240	5,081
Accruals and deferred income	2,640	2,330
Liabilities of the Group's banking subsidiaries	151,842	53,078
Other payables	<u>59,248</u>	<u>40,165</u>
	<u>398,126</u>	<u>219,983</u>

Payables of the Group's banking subsidiaries represent amounts due to the banks' customers with terms at commercial rates ranging from 0.0% to 2.5% per annum and from 0.0% to 1.0% per annum as of 31 December 2006 and 2005 respectively.

For the years ended 31 December 2006 and 2005 approximately 13% and 15% of the Group's settlements of accounts payable and accrued charges were made via non-cash settlements.

RR 42,662 and RR 19,163 of trade payables are denominated in foreign currency, mainly the US dollar and Euro, as of 31 December 2006 and 2005, respectively. Book values of accounts payable approximate their fair value.

17 OTHER TAXES PAYABLE

	31 December	
	2006	2005
VAT	21,311	59,883
Natural resources production tax	13,388	12,742
Excise tax	3,361	7,337
Property tax	4,349	3,194
Tax penalties and interest	2,429	3,141
Other taxes	<u>5,407</u>	<u>4,383</u>
	50,245	90,680
Less: long-term portion of restructured tax liabilities	<u>(822)</u>	<u>(1,128)</u>
	<u>49,423</u>	<u>89,552</u>

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17 OTHER TAXES PAYABLE (continued)

As of 31 December 2006 and 2005 included within VAT payable is RR 16,163 and RR 50,287, respectively, included within excise tax payable is RR 1,565 and RR 2,389, respectively, that are only payable to budget when the underlying receivable is recovered, written off or expired due to limitation period.

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

	31 December	
	2006	2005
Short-term borrowings:		
RR denominated borrowings	101,314	50,759
Foreign currency denominated borrowings	<u>51,737</u>	<u>47,319</u>
	153,051	98,078
Current portion of long-term borrowings (see Note 19)	<u>137,654</u>	<u>82,881</u>
	<u>290,705</u>	<u>180,959</u>

Short-term RR denominated borrowings had average interest rates ranging from 7.4% to 13.0% and from 8.0% to 13.0% for the years ended 31 December 2006 and 2005, respectively. Short-term foreign currency denominated borrowings had average interest rates ranging from 2.4% to 8.9% and from 2.4% to 7.8% for the years ended 31 December 2006 and 2005, respectively.

As of 31 December 2006 and 2005, respectively, short-term borrowings include RR 133,493 and RR 67,752 of short-term borrowings of AB Gazprombank (ZAO).

The Group's short-term promissory notes payable had average interest rates ranging from 6.8% to 9.0% and from 5.5% to 10.8% for the years ended 31 December 2006 and 2005, respectively.

Fair values approximate the carrying value of these liabilities.

19 LONG-TERM BORROWINGS AND PROMISSORY NOTES

	Currency	Final Maturity	31 December	
			2006	2005
Long-term borrowings payable to:				
Morgan Stanley AG	US dollar	2013	47,558	51,921
Loan participation notes issued in May 2005	Euro	2015	35,886	35,357
Loan participation notes issued in November 2006	US dollar	2016	35,786	-
ABN AMRO*	US dollar	2010	35,765	-
Loan participation notes issued in September 2003	Euro	2010	35,408	34,847
Loan participation notes issued in December 2005	Euro	2012	34,793	34,280
Structured export notes issued in July 2004	US dollar	2020	33,901	37,058
Dresdner Bank AG*	US dollar	2010	33,143	36,194
Dresdner Bank AG*	US dollar	2008	33,135	36,186
Loan participation notes issued in April 2004	US dollar	2034	32,074	34,880
Deutsche Bank AG	US dollar	2014	31,776	34,732
Loan participation notes issued in October 2006	Euro	2014	27,317	-
Eurobonds issued by AB Gazprombank (ZAO) in September 2005	US dollar	2015	26,557	29,013
Eurobonds issued by AB Gazprombank (ZAO) in October 2003	US dollar	2008	19,927	21,747
Salomon Brothers AG	US dollar	2009	18,798	20,548

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19 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

	Currency	Final Maturity	31 December	
			2006	2005
Loan participation notes issued in November 2006	Euro	2017	17,443	-
Citibank International PLC	US dollar	2009	16,646	-
Salomon Brothers AG	US dollar	2009	15,921	16,672
Credit Swiss First Boston	Euro	2009	13,969	13,763
Depfa Bank*	US dollar	2008	13,502	14,760
Salomon Brothers AG	US dollar	2007	13,386	14,632
Loan from a syndicate of foreign banks	US dollar	2008	13,179	18,796
Salomon Brothers AG	US dollar	2007	11,876	12,517
Russian bonds issued in February 2004	Rouble	2007	10,359	10,338
OOO Aragon	Euro	2010	9,541	-
Deutsche Bank AG	US dollar	2011	9,358	10,214
Eurobonds issued by AB Gazprombank (ZAO) in January 2004	US dollar	2008	7,971	8,699
Credit Swiss First Boston	Euro	2007	8,720	8,577
Liberty Hamshir Corporation	Rouble	2009	7,600	-
Gazstream SA	US dollar	2012	7,248	11,775
Gazstream SA	US dollar	2010	7,050	8,358
Credit Swiss First Boston	Euro	2008	7,009	-
Credit Swiss First Boston	Euro	2008	6,996	6,893
ABN AMRO*	US dollar	2009	6,609	-
Mannesmann (Deutsche Bank AG)*	Euro	2008	5,814	8,591
ABN AMRO*	US dollar	2009	5,355	-
J.P. Morgan Chase bank	US dollar	2011	5,302	5,792
Credit Swiss First Boston	US dollar	2009	5,293	5,783
BNP Paribas SA	US dollar	2008	5,271	5,761
Russian bonds issued in August 2005	Rouble	2009	5,134	5,108
Russian bonds issued in February 2005	Rouble	2010	5,134	4,884
Russian bonds issued in October 2004	Rouble	2007	5,084	5,070
Russian bonds issued in November 2006	Rouble	2011	5,057	-
Russian bonds issued in November 2006	Rouble	2009	5,040	-
Deutsche Bank AG	US dollar	2009	2,988	4,562
International banking consortium	Euro	2007	1,735	2,051
Dresdner Bank AG*	US dollar	2007	-	74,349
ABN AMRO*	US dollar	2010	-	25,666
Calyon bank	US dollar	2010	-	23,977
ABN AMRO*	US dollar	2008	-	20,249
ABN AMRO*	US dollar	2010	-	7,853
Raiffeisen Centralbank*	US dollar	2008	-	5,184
ZAO KB Citibank*	US dollar	2008	-	4,363
German banking consortium	Euro	2007	-	3,594
BNP Paribas SA*	US dollar	2007	-	3,187
OAO Vneshtorgbank	US dollar	2008	-	2,894
Deutsche Bank AG	US dollar	2006	-	2,319
Other long-term borrowings	Various	Various	62,583	40,736
Total long-term borrowings			805,997	824,730
Less: current portion of long-term borrowings			(137,654)	(82,881)
			668,343	741,849

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

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19 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

	31 December	
	2006	2005
RR denominated borrowings (including current portion of RR 18,447 and RR 1,626 as of 31 December 2006 and 2005, respectively)	60,753	36,959
Foreign currency denominated borrowings (including current portion of RR 119,207 and RR 81,255 as of 31 December 2006 and 2005, respectively)	<u>745,244</u>	<u>787,771</u>
	<u>805,997</u>	<u>824,730</u>

	31 December	
	2006	2005
Due for repayment:		
Between one and two years	111,280	153,165
Between two and five years	242,230	360,505
After five years	<u>314,833</u>	<u>228,179</u>
	<u>668,343</u>	<u>741,849</u>

Long-term borrowings include fixed rate loans with a carrying value of RR 563,142 and RR 472,979 and fair value of RR 592,833 and RR 510,608 as of 31 December 2006 and 2005, 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 2006 and 2005, long-term borrowings of AB Gazprombank (ZAO) are equal to RR 84,628 and RR 100,339, respectively.

In 2006, the Group had three issues of Loan participation notes in the amount of Euro 780 million due 2014 at an interest rate of 5.03%, of Euro 500 million due 2017 at an interest rate of 5.136% and of USD 1,350 million due 2016 at an interest rate of 6.212%.

In May 2006, the Group received a US dollar denominated non-secured syndicated loan from ABN AMRO in the amount of RR 41,322 (USD 1,526 million) due 2010 at an interest rate of Libor + 0.55%. The loan was obtained to refinance obligations to ABN AMRO and Calyon bank.

As of 31 December 2006 and 2005, the Group did 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	
	2006	2005
Fixed rate RR denominated long-term borrowings	7.17%	8.09%
Fixed rate foreign currency denominated long-term borrowings	6.85%	7.28%
Variable rate foreign currency denominated long-term borrowings	6.60%	5.27%

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19 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

As of 31 December 2006 and 2005 long-term borrowings of RR 33,901 and RR 98,886, respectively, inclusive of current portion of long-term borrowings, are secured by revenues from export supplies of gas to Western Europe.

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

The Group's long-term promissory notes payable had average interest rates ranging from 8.0% to 8.1% and from 6.6% to 10.0% for the years ended 31 December 2006 and 2005, respectively.

20 PROFIT TAX

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

	Year ended 31 December	
	2006	2005
Profit before profit tax and minority interest	<u>856,065</u>	<u>450,115</u>
Theoretical tax charge at a statutory rate (24% for the years ended 31 December 2006 and 2005, respectively)	(205,456)	(108,028)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	(22,319)	(33,416)
Other non-taxable income	<u>8,171</u>	<u>7,260</u>
Profit tax expense	<u>(219,604)</u>	<u>(134,184)</u>

Profit tax expense in the consolidated statement of income is stated net of RR 3,077 and RR 24,724 of tax attributable to gains arising on treasury shares transactions for the years ended 31 December 2006 and 2005, 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%.

	Differences		Differences		
	31 December	recognition	31 December	recognition	31 December
	2006	and reversals	2005	and reversals	2004
Tax effects of taxable temporary differences:					
Property, plant and equipment	(241,739)	(6,620)	(235,119)	(99,949)	(135,170)
Financial assets	(38,112)	(17,370)	(20,742)	(19,020)	(1,722)
Inventories	<u>(189)</u>	<u>2,778</u>	<u>(2,967)</u>	<u>14</u>	<u>(2,981)</u>
	(280,040)	(21,212)	(258,828)	(118,955)	(139,873)
Tax effects of deductible temporary differences:					
Tax losses carry forward	1,706	(1,123)	2,829	2,055	774
Other deductible temporary differences	<u>2,826</u>	<u>(1,305)</u>	<u>4,131</u>	<u>2,094</u>	<u>2,037</u>
Total net deferred tax liabilities	(275,508)	(23,640)	(251,868)	(114,806)	(137,062)

Taxable temporary differences in relation to financial assets include difference on fair value adjustment on RAO UES of Russia shares in the amount of RR 17,725 and RR 4,789 for the years, ended 31 December 2006 and 2005, respectively. No current profit tax was paid on this revaluation.

Taxable temporary differences recognized in 2005 include the effect of acquisition of OAO Gazprom Neft in October 2005. The differences resulting from the acquisition of OAO Gazprom Neft in relation to property, plant and equipment amounted to RR 78,145 and in respect of financial assets amounted to RR 17,061.

20 PROFIT TAX (continued)

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.

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 group 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. 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 of 31 December 2006 and 2005 deferred tax assets in the amount of RR 14,053 and RR 10,733, respectively, 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 313,678 and RR 264,629 as of 31 December 2006 and 2005, respectively. A deferred tax liability on these temporary differences was not recognized because management controls the timing of the reversal of the temporary differences and believes that they will not reverse in the foreseeable future.

21 FINANCIAL INSTRUMENTS

Derivative financial instruments

As of 31 December 2006 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.

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21 FINANCIAL INSTRUMENTS (continued)

The following table provides an analysis of the Group's position and fair value of derivatives outstanding as of the end of the reporting period. Fair values of derivatives are reflected at their gross value in the balance sheet.

	31 December			
	2006		2005	
	Notional principal equivalents	Fair value	Notional principal equivalents	Fair value
Foreign exchange option contracts				
Call options held – foreign	4,871	499	7,627	174
Put options held – foreign	-	-	2,556	17
Call options written – foreign	(1,021)	(24)	(570)	(8)
Put options written – foreign	(983)	-	(560)	(1)
	2,867	475	9,053	182
Foreign exchange forward contracts				
Assets foreign	77,494	2,139	15,502	183
Assets domestic	41,616	593	27,315	36
Liabilities foreign	(47,603)	(432)	(26,243)	(397)
Liabilities domestic	(44,936)	(353)	(45,124)	(27)
	26,571	1,947	(28,550)	(205)
Bullion forward contracts				
Assets domestic	135	2	-	-
Liabilities foreign	(130)	(7)	-	-
	5	(5)	-	-
Securities option contracts				
Call options written – foreign	(22,310)	(2,851)	-	-
Call options held – foreign	5,867	332	-	-
Put options written – domestic	-	-	(787)	(1,111)
Put options held – domestic	-	-	764	-
	(16,443)	(2,519)	(23)	(1,111)
Securities forward contracts				
Assets – foreign	-	-	1,693	4
Assets – domestic	917	1	20	-
Liabilities – foreign	-	-	(3,216)	(7)
Liabilities – domestic	(649)	(4)	-	-
	268	(3)	(1,503)	(3)
Commodity contracts				
Commodity contracts assets	89,273	18,776	42,458	7,456
Commodity contracts liabilities	(93,504)	(17,261)	(40,981)	(6,515)
	(4,231)	1,515	1,477	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 are not included in the table above.

22 PROVISIONS FOR LIABILITIES AND CHARGES

Notes	31 December	
	2006	2005
	84,393	57,733
33 Provision for pension obligations	31,670	25,070
Other	3,515	991
	119,578	83,794

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22 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

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

	31 December	
	2006	2005
Present value of obligations (unfunded)	237,481	190,435
Unrecognised actuarial losses	(126,577)	(103,301)
Unrecognised past service cost	(26,511)	(29,401)
Net liability	84,393	57,733

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

	Year ended 31 December	
	2006	2005
Current service cost	7,945	5,362
Interest cost	12,634	9,120
Past service cost amortisation	2,891	82
Net actuarial losses	5,617	6,939
Net expense included in staff costs in the statement of income (see Note 25)	29,087	21,503

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

	Year ended 31 December	
	2006	2005
Net liability at the beginning of the reporting period	57,733	38,046
Net expense recognised in the consolidated statement of income	29,087	21,503
Benefits paid	(2,427)	(1,816)
Net liability at the end of the reporting period	84,393	57,733

Principal actuarial assumptions used (expressed as weighted average):

	31 December	
	2006	2005
Discount rate (nominal)	6.7%	6.9%
Future salary increases (nominal)	7.6%	7.0%
Employees average remaining working life (years)	15	15

The assumptions relating to longevity at normal pension age were 17 years for a 60 years old man and 28 years for a 55 year old woman in 2006 and 2005.

23 EQUITY

Share capital

Share capital authorised, issued and paid in totals RR 325,194 as of 31 December 2006 and 2005 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 roubles.

Dividends

In 2006, OAO Gazprom accrued and paid dividends in the nominal amount of 1.50 roubles per share for the year ended 31 December 2005. In 2005, OAO Gazprom accrued and paid dividends in the nominal amount of 1.19 roubles per share for the year ended 31 December 2004.

In 2007, the Board of Directors of OAO Gazprom recommended payment of a final dividend for the year ended 31 December 2006 in the amount of 2.54 roubles 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 2006 has not been recognised in the consolidated balance sheet. The final dividend of RR 60,131 (including dividend tax withheld at source in the amount of RR 6,290), if approved, will be paid prior to 31 December 2007.

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23 EQUITY (continued)

Treasury shares

As of 31 December 2006 and 2005, subsidiaries of OAO Gazprom held 749 million and 848 million of the ordinary shares of OAO Gazprom, respectively. Shares of the Group held by the subsidiaries represent 3.4% and 3.6% of OAO Gazprom shares as of 31 December 2006 and 2005, respectively. The Group management controls the voting rights of these shares.

In addition, treasury shares as of 31 December 2006 include 46 million of Gazprom shares recognized under a put option written by the Group in June 2006 with a strike price of USD 13.27 per share. The option expires in November 2007. Financial liabilities recognized under this put option amounted to RR 15,470 as of 31 December 2006 and are included in "Other non-current liabilities".

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, when Russian economy ceased to be hyperinflationary under IAS 29. 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 20,496 and RR 20,732 as of 31 December 2006 and 2005, respectively.

Retained earnings and other reserves include a statutory fund for social assets, created in accordance with Russian legislation at the time of privatisation. 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 14,562 and RR 2,162 have been transferred to governmental authorities during the years ended 31 December 2006 and 2005, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

The basis of distribution is defined by legislation as the current year net profit, as calculated in accordance with RAR. For 2006, the statutory profit of the parent company was RR 343,680. 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	
	2006	2005
Gas sales (including excise tax and custom duties, net of VAT) to customers in:		
Russian Federation	357,274	311,336
Former Soviet Union (excluding Russian Federation)	243,133	131,393
Europe	<u>1,149,582</u>	<u>850,017</u>
Gross sales of gas	1,749,989	1,292,746
Excise tax	(2,637)	(4,459)
Customs duties	<u>(335,733)</u>	<u>(250,812)</u>
Net sales of gas	1,411,619	1,037,475
Sales of refined products to customers in:		
Russian Federation	233,044	123,565
Former Soviet Union (excluding Russian Federation)	29,776	14,414
Europe	<u>172,165</u>	<u>64,891</u>
Total sales of refined products	434,985	202,870
Sales of crude oil and gas condensate to customers in:		
Russian Federation	26,737	17,376
Former Soviet Union (excluding Russian Federation)	19,213	4,793
Europe	<u>125,759</u>	<u>30,422</u>
Sales of crude oil and gas condensate	171,709	52,591
Gas transportation sales	34,500	25,050
Other revenues	<u>99,298</u>	<u>65,559</u>
	2,152,111	1,383,545

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24 SALES (continued)

Other revenues include primarily sales of media assets, revenues from construction works and other services.

25 OPERATING EXPENSES

	Year ended 31 December	
	2006	2005
Purchased oil and gas	280,062	87,723
Staff costs	199,588	168,076
Taxes other than on income	187,245	113,966
Depreciation	167,446	124,783
Transit of gas, oil and refined products	156,489	110,863
Repairs and maintenance	82,305	55,266
Materials	81,810	73,779
Cost of goods for resale, including refined products	51,041	24,540
Electricity and heating expenses	45,062	33,031
Social expenses	18,563	15,674
Impairment provisions	14,384	8,774
Research and development	13,123	6,544
Equipment maintenance	12,885	11,564
Insurance expenses	10,448	11,800
Rental expenses	8,890	9,727
Transportation services	6,130	9,344
Other operating expenses	<u>28,452</u>	<u>64,107</u>
	<u>1,363,923</u>	<u>929,561</u>

Staff costs include RR 29,087 and RR 21,503 of expenses associated with pension obligations (see Note 22) for the years ended 31 December 2006 and 2005, respectively.

Taxes other than on income consist of:

	Year ended 31 December	
	2006	2005
Natural resources production tax	158,480	87,229
Property tax	21,825	15,269
Other taxes	<u>6,940</u>	<u>11,468</u>
	<u>187,245</u>	<u>113,966</u>

26 FINANCE INCOME AND EXPENSES

	Year ended 31 December	
	2006	2005
Exchange gains	60,497	27,530
Interest income	36,460	25,202
Gains on and extinguishment of restructured liabilities	<u>966</u>	<u>1,158</u>
Total finance income	<u>97,923</u>	<u>53,890</u>

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26 FINANCE INCOME AND EXPENSES (continued)

	Year ended 31 December	
	2006	2005
Exchange losses	21,449	33,724
Interest expense	43,771	36,202
Total finance expenses	65,220	69,926

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	
	2006	2005
RAR net profit for the period per consolidated statutory accounts	578,688	427,048
Effects of IFRS adjustments:		
Effect of sales of treasury shares of OAO Rosneftgaz	-	(144,780)
Reclassification of revaluation of RAO UES of Russia (including deferred tax effect of RR 17,725 and RR 4,789 for the years, ended December 31, 2006 and 2005, respectively)	(56,129)	(12,397)
Gain of OAO Novatek shares revaluation	(34,984)	-
Differences in depreciation	72,167	59,964
Reversal of Goodwill depreciation	25,069	7,209
Loan interest capitalized	17,275	15,189
Impairment provisions and other provisions	16,431	(16,456)
Fair value adjustment for currency options	1,459	(1,577)
Write-off of research and development expenses capitalized for RAR purposes	(3,438)	(4,222)
Fair value adjustment on commodity contracts	4,169	886
Other effects	15,754	(14,933)
IFRS profit for the period	636,461	315,931

28 EARNINGS PER SHARE

Earnings per share have been calculated by dividing the profit, attributable to equity shareholders of OAO Gazprom 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 22.8 billion and 21.4 billion weighted average shares outstanding for the years ended 31 December 2006 and 2005, respectively.

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NET CASH PROVIDED BY OPERATING ACTIVITIES

	Year ended 31 December	
	2006	2005
Profit before profit tax	856,065	450,115
Adjustments to profit before profit tax		
Depreciation	167,446	124,783
Charge for impairment provisions and other provisions	43,471	27,699
Net unrealised foreign exchange (gains) losses	(39,048)	6,194
Interest expense on borrowings and promissory notes	43,771	36,202
Gains on and extinguishment of restructured liabilities	(966)	(1,158)
Losses on disposal of property, plant and equipment	11,744	2,746
Interest income	(36,460)	(25,202)
Gain on disposal of available-for-sale financial assets	(8,811)	(385)
Share of net income from associated undertakings and jointly controlled entities	<u>(26,363)</u>	<u>(11,782)</u>
Total effect of adjustments	154,784	159,097
Increase in long-term assets	(39,758)	(20,021)
Decrease in long-term liabilities	(501)	(3,374)
Non-cash additions and disposals of property, plant and equipment and other long-term financial assets	<u>(55,371)</u>	<u>(73,670)</u>
	915,219	512,147
Changes in working capital		
Increase in accounts receivable and prepayments	(257,763)	(59,288)
Increase in inventories	(43,600)	(26,647)
Increase in other current assets	(7,205)	(42,422)
Increase in accounts payable and accrued charges, excluding interest, dividends and capital construction	128,514	27,888
Increase in taxes payable (other than profit tax)	11,812	43,171
Decrease (increase) in available-for-sale financial assets and financial assets held for trading	<u>8,290</u>	<u>(28,151)</u>
Total effect of working capital changes	(159,952)	(85,449)
Profit tax paid	<u>(211,179)</u>	<u>(154,081)</u>
Net cash provided by operating activities	544,088	272,617

Total taxes paid in cash for the years 2006 and 2005:

	Year ended 31 December	
	2006	2005
Customs duties	473,088	289,196
Profit tax	211,179	154,081
Natural resources production tax	157,834	90,357
VAT	74,398	67,655
Excise	35,948	12,502
Unified social tax	27,846	22,725
Personal income tax	22,155	18,297
Property tax	20,670	13,344
Other	<u>4,024</u>	<u>6,043</u>
Total taxes paid	1,027,142	674,200

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SUBSIDIARY UNDERTAKINGS

Subsidiary undertaking	Location	% of share capital as of 31 December	
		2006	2005
ZAO Archinskoe*	Russia	100	100
ZAO ArmRosgazprom	Armenia	53	45
Arosgas Holding AG**	Austria	100	100
ООО Astrakhangazprom	Russia	100	100
ООО Aura-Media	Russia	100	100
ОАО Azot (Kemerovo)	Russia	75	75
ООО Bashtransgaz	Russia	100	100
ОАО Belozerniy GPK	Russia	100	100
ООО Burgaz	Russia	100	100
ООО Elion	Russia	100	100
ООО Faktoring-Finance	Russia	90	90
ОАО Gazavtomatika***	Russia	49	49
ОАО Gazenergосervice	Russia	51	51
ООО Gazflot	Russia	100	100
NPF Gazfund	Russia	100	100
ООО Gazkomplektimpex	Russia	100	100
ООО Gaznadzor	Russia	100	100
ООО GazNeftoTrade	Russia	100	100
ООО Gazobezопасnost	Russia	100	100
ООО Gazoenergeticheskaya Companiya	Russia	100	100
ООО Gazpromavia	Russia	100	100
AB Gazprombank (ZAO)	Russia	100	100
ООО Gazpromenergo	Russia	100	100
ООО Gazprom export	Russia	100	100
Gazprom Finance BV	Netherlands	100	100
GAZPROM Germania GmbH	Germany	100	100
ОАО Gazprom Neft	Russia	76	76
ООО Gazprominvestholding	Russia	100	100
Gazprom Marketing and Trading Ltd.	United Kingdom	100	100
ОАО Gazprom-Media	Russia	100	100
ООО GazpromPurInvest	Russia	100	99
ОАО Gazpromregiongaz	Russia	100	100
ZAO Gazpromstroyengineering	Russia	100	100
ООО Gazpromtrans	Russia	100	100
ОАО Gazpromtrubinvest	Russia	99	99
ООО Gazsvyaz	Russia	100	100
ООО Gaztechleasing	Russia	100	100

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30 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Location	% of share capital as of 31 December	
		2006	2005
OOO Gaztorgpromstroy	Russia	100	100
ZAO Gerosgaz	Russia	51	51
OAO Giprospeftgaz	Russia	60	60
OAO Gubkinskiy GPK	Russia	100	100
OOO Informgaz	Russia	100	100
OOO IRTs Gazprom	Russia	100	100
OOO Kaspygazprom	Russia	100	100
OAO Kauchuk	Russia	100	100
ZAO Kaunasskaya power station	Lithuania	99	99
OOO Kavkaztransgaz	Russia	100	100
OAO Khimprom	Russia	100	100
OOO Kommerts Investments**	Russia	100	100
OAO Krasnodargazstroy	Russia	51	51
OOO Krasnoyarsgazdobycha	Russia	100	100
OAO Krasnoyarskgazprom	Russia	75	75
OAO Krasnoyarskiy ZSK	Russia	97	97
OOO Kubangazprom	Russia	100	100
ZAO Kuzbassnefteproduct*	Russia	100	100
Leadville Investments Ltd.	Cyprus	100	100
OAO Lengazspecstroy	Russia	63	63
OOO Lentransgaz	Russia	100	100
OAO Meretoyakhaneftgaz*	Russia	67	67
OOO Mezhrefiongaz	Russia	100	100
OOO Mostransgaz	Russia	100	100
OOO Nadymgazprom	Russia	100	100
OOO Nadymstroygazdobycha	Russia	100	100
OOO Neftekhim-Leasing	Russia	100	100
OOO Neftyanaya Companiya Sibneft-Yugra*	Russia	99	99
OOO Nizhnevartovskiy GPK	Russia	100	100
ZAO Novokuybishevsk petrochemical company	Russia	100	100
OOO Novourengoy sky GCC	Russia	100	100
OOO Novye finansovyeologii**	Russia	100	100

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30 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Location	% of share capital as of 31 December	
		2006	2005
OOO Noyabrskgazodobycha	Russia	100	100
OAO NTV-PLUS	Russia	78	76
OOO Nyangazpererabotka	Russia	100	100
OAO Omskshina	Russia	83	83
OOO Orenburggazprom	Russia	100	100
OAO Orton	Russia	71	71
OOO Permtransgaz	Russia	100	100
OAO Plastic	Russia	67	66
OOO Podzemgazprom	Russia	100	100
OOO PRT-1	Russia	100	100
OOO PRT-2	Russia	100	100
ZAO Purgaz	Russia	51	51
OOO Purgazodobycha	Russia	100	100
OOO Regionalnaya finansovaya kompaniya**	Russia	100	100
OOO Regionalnaya investitsionnaya kompaniya**	Russia	100	98
ZAO Regiongazholding	Russia	56	56
ZAO Rosshelf	Russia	57	53
ZAO RSH-Center	Russia	99	99
OOO Samaratransgaz	Russia	100	100
OAO Saranskiy zavod "Rezinotekhnika"	Russia	92	92
OOO Severgazprom	Russia	100	100
OAO Severneftegazprom	Russia	100	100
ZAO Sevmorneftegaz	Russia	100	100
OOO Shinginskoe*	Russia	100	100
OOO Sibirskaya metanol chemical company	Russia	100	0
OOO Sibneft-AZS Service*	Russia	100	100
OOO Sibneft-Chukotka*	Russia	100	100
OOO Sibneft-Khantos*	Russia	100	100
OAO Sibneft-Noyabrskneftegaz*	Russia	100	100
OAO Sibneft-Noyabrskneftegazgeophysika*	Russia	81	81
Sibneft Oil Trade Company GmbH*	Austria	100	100
OAO Sibneft-Omskiy NPZ*	Russia	100	100
OAO Sibneft-Omsknefteproduct*	Russia	100	100
OOO Sibneft-Resource*	Russia	100	-
OOO Sibneft-St.Petersburg*	Russia	100	100
OAO Sibneft-Tyumennefteproduct*	Russia	90	90
OOO Sibneft-Vostok*	Russia	100	100
Sib Oil Trade Ltd*	Virgin Islands	100	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	100
ZAO Sibur-Khimprom	Russia	100	100
OAO Sibur-Neftekhim	Russia	100	100
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-Volzskiy	Russia	100	100

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30 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Location	% of share capital as of 31 December	
		2006	2005
AKB Sovfintrade (ZAO)	Russia	99	99
ZAO Spec'cisterni	Russia	100	100
OAO Spetsgazavtotrans	Russia	51	51
ZAO Stimul	Russia	100	100
OOO Surgutgazprom	Russia	100	100
OOO Szhizhenniy gas	Russia	100	100
OOO Tattransgaz	Russia	100	100
OOO Tobolsk-Neftekhim	Russia	100	100
OOO Tolyattikauchuk	Russia	100	100
OOO Tomskneftekhim	Russia	100	100
OOO Tomsk petrochemical plant	Russia	100	100
OOO Tomsktransgaz	Russia	100	100
OOO Trade Garant**	Russia	100	100
OAO Tsentrenergogaz	Russia	62	62
OAO Tsentrgaz	Russia	99	99
OAO TV Company NTV	Russia	100	69
OOO TyumenNIIgiprokaz	Russia	100	100
OOO Tyumentransgaz	Russia	100	100
OAO Uralorgsintez	Russia	95	88
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	91	51
OAO Voronezhskintezkauchuk	Russia	75	75
OAO Vostokgazprom	Russia	99	99
ZAO Yamalgazinvest	Russia	100	100
OOO Yamburggazdobycha	Russia	100	100
OAO Yaroslavsky tire plant	Russia	88	88
OOO Yugtransgaz	Russia	100	100
OAO Yuzhno-Balykskiy GPK	Russia	100	100
OAO Zapsibgazprom	Russia	77	77
Zarubezhgaz Management und BeteiligungsGesellschaft mbH (ZMB)	Germany	100	100
ZGG Cayman Holding Ltd	Cayman Islands	100	-
ZGG Cayman Ltd	Cayman Islands	100	-
ZMB (Schweiz) AG	Switzerland	100	100

* Subsidiaries acquired within acquisition of OAO Gazprom Neft

** Subsidiaries of AB Gazprombank (ZAO)

*** The Group controls 66% of voting rights in subsidiary

In 2006 the Group acquired an additional interest of 8.4% in the share capital of ZAO ArmRosgazprom for RR 2,984 paid in cash. This transaction was performed in connection of ZAO ArmRosgazprom's additional stock issuance.

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30 SUBSIDIARY UNDERTAKINGS (continued)

In September 2005 the Group purchased a 3.016% interest in OAO Gazprom Neft for RR 16,408 and in October 2005 the Group purchased a further 72.66% interest in OAO Gazprom Neft for USD 13,079 million paid in cash. In accordance with IFRS 3 the Group recognized the assets and liabilities, acquired in this business combination based upon their fair values. Such fair value determination includes assumptions and estimates regarding future events. Management commissioned independent assessment by independent appraisers.

Subsequent to acquisition of OAO Gazprom Neft the assets, liabilities, income and expenses of Gazprom Neft for the period from the date control was established by the Group were consolidated by the Group.

Gazprom Neft 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.

The appraisal and related purchase accounting was completed in 2006. Details of the assets and liabilities acquired according to the final assessment in the Gazprom Neft acquisition 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
Inventories	14,708	13,969
Other current assets	26,481	24,117
Property, plant and equipment:		
Production licenses	-	230,708
Wells	24,791	54,793
Other operating assets	41,498	118,393
Assets under construction	42,110	36,474
Investments in associated undertakings	71,657	153,043
Other non-current assets	5,414	7,140
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)	(92,732)
Other non-current liabilities	-	(7,649)
Fair value of net assets of subsidiary		499,914
Less: minority interest		(123,019)
Fair value of acquired interest in net assets of subsidiary		376,895
Goodwill		13,859
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

The amounts shown above reflect the effects of finalising the accounting for the acquisition. Such amounts differ from the provisional amounts previously disclosed as a result of the completion of the final appraisal. The comparative balance sheet as of December 31, 2005 has been updated since its original issuance to reflect the revisions. The originally issued consolidated statement of income was not revised as the impact of the final appraisal was immaterial. The amount of goodwill arising on the acquisition is included in "Other non-current assets" of the consolidated balance sheet.

31 MINORITY INTEREST

	Year ended 31 December	
	2006	2005
Minority interest at the beginning of the reporting period	142,317	45,551
Minority interest share of net profit of subsidiary undertakings	23,116	4,806
Dividends	(9,110)	-
Minority interest as a result of acquisitions	<u>5,039</u>	<u>91,960</u>
Minority interest at the end of the reporting period	<u>161,362</u>	<u>142,317</u>

32 RELATED PARTIES

For the purpose of these consolidated 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 as of 31 December 2006 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 2006 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 2006 and 2005, 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 2006		For the year ended 31 December 2006	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with the Government				
	15,488	18,957	-	213,844
	359	1,015	-	27,918
	180,851	21,311	-	-
	23,339	-	-	-
25	9,293	27,919	-	187,245
Transactions and balances with other parties under control of the Government				
	-	-	169,812	-
	81,610	4,250	-	-
25	-	-	-	45,062
	-	-	-	43,672
	-	32,107	-	-
	-	-	3,982	1,006
	28,762	-	1,694	-
	34,828	-	5,377	-
	128,599	-	-	-
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	-
	33,905	5,007	-	-
25	-	-	-	33,031
	-	-	-	8,679
	-	12,053	-	-
	-	-	1,579	1,066
	24,752	-	-	-
	18,422	-	-	139
	54,745	-	-	-

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 the consolidated statement of changes in equity for returns of social assets to governmental authorities during the years ended 31 December 2006 and 2005. See Note 11 for net book values as of 31 December 2006 and 2005 of social assets vested to the Group at privatisation.

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 1,173 and RR 1,027 for the years ended 31 December 2006 and 2005, 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 annual 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 payment from the Group. Employees of majority of Group companies are eligible for such benefits.

Associated undertakings and jointly controlled entities

For the years ended 31 December 2006 and 2005 the Group had the following significant transactions with associated undertakings:

	For the Year ended	
	31 December	
	2006	2005
Gas sales	Revenues	Revenues
RosUkrEnergo AG	157,450	30,590
Wintershall Erdgas Handelshaus GmbH & Co.KG	64,492	54,113
ZAO Panrusgaz	40,954	36,767
WINGAS GmbH	36,829	18,932
OAO Mosenergo	28,044	24,470
Wintershall Erdgas Handelshaus Zug AG	21,888	15,978
AO Gazum	17,635	13,344
Promgaz SPA	8,960	7,483
GWH – Gaz und Warenhandels GmbH	8,923	8,067
AO Moldovagaz	4,913	4,561
Gas transportation sales		
RosUkrEnergo AG	11,881	6,508
Purchased gas	Expenses	Expenses
RosUkrEnergo AG	16,863	18,385
TOO KazRosGaz	9,179	5,428
Gas transportation purchases		
SGT EuRoPol GAZ	10,843	12,048
Construction services purchases		
OAO Stroytransgaz	30,530	16,593

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32 RELATED PARTIES (continued)

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 and RosUkrEnergog AG) under long-term contracts based on world commodity prices.

As of 31 December 2006 and 2005 the Group had the following significant balances with associated undertakings:

	As of 31 December 2006		As of 31 December 2005	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and Prepayments				
RosUkrEnergog AG	62,702	-	2,678	-
WINGAS GmbH	16,141	-	8,463	-
ZAO Panrusgaz	7,363	-	5,704	-
AO Gazum	2,073	-	2,495	-
AO Moldovagaz*	1,847	-	717	-
Wintershall Erdgas Handelshaus GmbH & Co.KG	787	-	-	-
OAO Mosenergo	501	-	405	-
Long-term accounts receivable and prepayments				
RosUkrEnergog AG	14,903	-	-	-
WINGAS GmbH	13,282	-	13,086	-
SGT EuRoPol GAZ	4,900	-	5,960	-
Short-term accounts payable				
RosUkrEnergog AG	-	16,904	-	4,210
SGT EuRoPol GAZ	-	1,518	-	3,341
TOO KazRosGaz	-	750	-	488
Short-term accounts receivable and payable for construction services				
OAO Stroytransgaz	712	8,128	3,603	2,781

* Net of impairment provision on accounts receivable in the amount of RR 22,484 and RR 18,938 as of 31 December 2006 and 2005, respectively.

Investments in associated undertakings and jointly controlled entities are disclosed in Note 12.

Information on guarantees issued on behalf of BSPC and Gaztransit is disclosed in Note 33.

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. It is impossible to predict the nature and frequency of these developments and events associated with these risks as well as their effect on future operations and earnings.

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. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments.

Management believes that its interpretation of the relevant legislation as of 31 December 2006 is appropriate and all of the Group's tax, currency and customs positions will be sustainable.

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	
	2006	2005
Outstanding guarantees issued on behalf of:		
BSPC	30,150	35,916
ZAO Investment Technologies	6,005	-
Gaztransit	1,940	2,795
Other	<u>12,770</u>	<u>7,398</u>
	<u>50,865</u>	<u>46,109</u>

Included in financial guarantees are amounts denominated in USD 1,511 million and USD 1,459 million as of 31 December 2006 and 2005, respectively.

33 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS (continued)

In July 2005 BSPC 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 2006 and 2005, outstanding amounts of these loans were RR 29,386 (USD 1,116 million) and RR 34,920 (USD 1,213 million), respectively, which were guaranteed by the Group, pursuant to its obligations.

As of 31 December 2006 and 2005 BSPC also borrowed RR 764 (USD 29 million) and RR 996 (USD 35 million) of credit facilities, provided by Depfa bank, which were guaranteed by the Group.

In November 2006 the Group provided a guarantee to Lascor Limited on behalf of ZAO Investment Technologies with respect to its purchase of OAO Salavatnefteorgsyntez shares in the amount of RR 6,005 (USD 228 million).

Line "Other" includes mainly guarantees issued by AB Gazprombank (ZAO) to third parties of RR 7,461 and RR 5,616 as of 31 December 2006 and 2005, respectively.

Other guarantees

As of 31 December 2006 and 2005 the Group's banking subsidiaries and NPF Gazfund pledged RR 229 and RR 1,452, respectively of corporate bonds included in assets held for trading (see Note 8) and RR 33,951 and RR 827, respectively of treasury shares (see Note 23) under repurchase agreements.

As of 31 December 2006 and 2005 the Group pledged RR 9,410 (USD 358 million) and RR 10,290 (USD 358 million), respectively 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 submitted to the Board of Directors the amended investment programme for 2007 including capital expenditure budget of about RR 300 billion.

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 2006 no loss is expected to result from these long-term commitments.

Loan commitments

As of 31 December 2006 and 2005 the Group's banking subsidiary AB Gazprombank (ZAO) had undrawn loan commitments related to credit facilities issued to external customers in amounts of RR 52,824 and RR 48,626, 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 consolidated 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.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, management aims to maintain flexibility in funding by keeping committed funds available.

35 POST BALANCE SHEET EVENTS

Investments

In April 2007, the Group acquired 50% plus one share of Sakhalin Energy Investment Company Ltd., which is the operator of Sakhalin-2 project, for USD 7,450 million paid in cash. Management is currently assessing the financial statements impacts of the transaction.

In May 2007, the Group acquired additional shares of OAO "Mosenergo" for RR 60,040 paid in cash. As a result of this transaction Group increased its interest in OAO "Mosenergo" to 49.76%.

Borrowings

In February 2007, the Group issued RR 5,000 million bonds in due 2014 at an interest rate of 7.23%.

35 POST BALANCE SHEET EVENTS (continued)

In March 2007, the Group received long-term loans from Credit Suisse First Boston in the amount of USD 470 million at an interest rate of 5.60% due to 2008 and in the amount of USD 480 million at an interest rate of 5.65% due in 2009.

In March 2007, the Group issued Euro 500 million Loan Participation Notes due 2017 at an interest rate of 5.44% and USD 1,300 million Loan Participation Notes due 2022 at an interest rate of 6.51% under the USD 15,000 million Programme for the Issuance of Loan Participation Notes.

In April 2007, the Group received a long-term loan from ABN AMRO in the amount of USD 5,450 million at an interest rate of Libor + 0.3% due in 2008 and, to refinance part of this loan the Group received two loans in the amount of USD 1,000 million at an interest rate of Libor + 0.4% due in 2010 and in the amount of USD 1,000 million at an interest rate of Libor + 0.5% due in 2012.

In June 2007, the Group issued Euro 700 million Loan Participation Notes due 2014 at an interest rate of 5.36% and UK pound 800 million Loan Participation Notes due 2013 at an interest rate of 6.58% under the USD 15,000 million Programme for the Issuance of Loan Participation Notes.

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