

**OPEN JOINT STOCK COMPANY GAZPROM**

**AUDIT REPORT**

**ON STATUTORY CONSOLIDATED FINANCIAL (ACCOUNTING) REPORTS**

**2003**

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**TRANSLATOR'S EXPLANATORY NOTE: The above translation is provided as a free translation from Russian, which is the official and binding version.**

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**AUDIT REPORT**  
**on statutory consolidated financial (accounting) reports**

To the shareholders of Open Joint Stock Company Gazprom:

**Auditor**

ZAO PricewaterhouseCoopers Audit

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

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

**Client**

Open Joint Stock Company Gazprom

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

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

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**AUDIT REPORT**  
**on statutory consolidated financial (accounting) reports of**  
**Open Joint Stock Company Gazprom**

To the shareholders of Open Joint Stock Company Gazprom:

- 1 We have audited the attached 2003 statutory consolidated financial (accounting) reports of Open Joint Stock Company Gazprom ("OAO Gazprom") and its subsidiaries (the "Group"). The statutory consolidated financial (accounting) reports comprise the Consolidated Balance Sheet as of 31 December 2003, the Consolidated Statement of Income for the year 2003 and the Notes to the consolidated financial (accounting) reports (together, the "statutory consolidated financial (accounting) reports"). These statutory consolidated financial (accounting) reports were prepared by the management of OAO Gazprom in accordance with the Federal Law on Accounting and Regulation on Accounting and Reporting in the Russian Federation adopted by Decree of the Ministry of Finance of the Russian Federation dated 29 July 1998 No. 34н (n), and the methodology recommendations on preparing statutory consolidated accounting reports approved by Order of the Ministry of Finance of the Russian Federation dated 30 December 1996 No. 112. Such statutory consolidated financial (accounting) reports differ to a significant extent from those prepared in accordance with International Financial Reporting Standards.
- 2 Preparation of the statutory consolidated financial (accounting) reports is the responsibility of the management of OAO Gazprom. Our responsibility is to express our opinion on the statutory consolidated financial (accounting) reports and on whether the accounting is conducted in accordance with the Russian legislation based on our audit.
- 3 We conducted our audit in accordance with the Federal Law on Auditing, in accordance with Federal Auditing Standards, International Standards on Auditing and our internal standards.

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

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

25 May 2004

Director of ZAO

K. Rowden

Statutory Auditor  
Certificate No K 008770  
for general audit  
termless

S.A. Blokhin

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**OAO GAZPROM**  
**CONSOLIDATED BALANCE SHEET**  
**as of 31 December 2003**  
**(in million Roubles)**

Note	ASSETS	As of 1 January 2003	As of 31 December 2003
	<b>I. NON-CURRENT ASSETS</b>		
	Intangible assets, including:	22,764	37,624
	intellectual property rights	1,118	992
19	goodwill on subsidiaries	21,620	36,594
5	Fixed assets, including:	1,385,547	1,442,140
	including plots of land and natural resources	14	183
	buildings, constructions, machinery and equipment	1,368,445	1,422,414
6	Construction in progress	279,502	308,623
7,19	Long-term financial investments, including:	140,986	133,607
	investments in subsidiaries	23,754	30,077
	investments in associates	25,664	24,367
	investments in other companies	7,276	4,085
	loans issued to companies beyond 12 months	20,647	17,885
	other long-term financial investments	63,645	57,193
13	Deferred tax assets	17,265	16,662
	Other non-current assets	<u>16,492</u>	<u>21,194</u>
	<b>TOTAL Section I</b>	<b>1,862,556</b>	<b>1,959,850</b>
	<b>II. CURRENT ASSETS</b>		
	Inventories, including:	109,721	136,418
	materials and other inventories	56,122	65,473
	work in progress	1,826	3,254
	finished goods and goods for resale	47,564	60,957
	goods dispatched	63	1,187
	expenses related to future periods	4,146	5,547
	Value added tax on purchased goods	73,810	85,909
	Accounts receivable (payment expected beyond 12 months of the reporting date), including:	29,246	42,710
8	buyers and customers	18,880	22,339
	promissory notes, bills of exchange receivable	3,961	1,649
8	other accounts receivable	6,405	18,722
	Accounts receivable (payment expected within 12 months of the reporting date), including:	251,544	269,496
8	buyers and customers	124,884	130,389
	promissory notes, bills of exchange receivable	2,531	4,398
	advances paid	25,901	41,197
8	other accounts receivable	98,228	93,512
	Short-term financial investments, including:	51,610	67,267
9	loans issued to companies due within 12 months	6,312	5,314
9	other short-term financial investments	45,298	61,953
10	Monetary assets, including:	84,864	93,974
	cash on hand	39	31
	rouble bank accounts	15,439	26,045
	non-rouble bank accounts	20,812	23,270
	other monetary assets	48,574	44,628
	Other current assets	<u>393</u>	<u>1,085</u>
	<b>TOTAL Section II</b>	<b><u>601,188</u></b>	<b><u>696,859</u></b>
4	<b>TOTAL ASSETS</b>	<b>2,463,744</b>	<b>2,656,709</b>

**OAO GAZPROM**  
**CONSOLIDATED BALANCE SHEET**  
as of 31 December 2003  
(in million Roubles)

Note	EQUITY AND LIABILITIES	As of 1 January 2003	As of 31 December 2003
11	<b>III. EQUITY AND RESERVES</b>		
	Charter capital	118,368	118,368
	Treasury shares	(9,838)	(14,299)
	Additional capital	1,272,959	1,275,165
	Legal reserve, including:	11,111	15,797
	reserves and provisions formed in accordance with legislation	8,650	8,694
	reserves formed in accordance with foundation documents	2,461	7,103
	Special purpose financing	349	898
	Retained earnings	312,893	469,150
	Social government fund	<u>8,238</u>	<u>7,299</u>
	<b>TOTAL Section III</b>	<b>1,714,080</b>	<b>1,872,378</b>
	<b>Minority interest</b>	<b>4,181</b>	<b>8,465</b>
	<b>IV. NON-CURRENT LIABILITIES</b>		
12	Borrowings, including:	263,990	275,661
	bank borrowings due for repayment beyond 12 months of the reporting date	254,257	267,444
	other borrowings due for repayment beyond 12 months of the reporting date	9,733	8,217
13	Deferred tax liabilities	33,858	62,059
13,14	Other non-current liabilities	<u>42,529</u>	<u>41,017</u>
	<b>TOTAL Section IV</b>	<b>340,377</b>	<b>378,737</b>
	<b>V. CURRENT LIABILITIES</b>		
12	Loans and borrowings, including:	173,522	144,329
	loans due for repayment within 12 months of the reporting date :	69,445	34,860
	borrowings due for repayment within 12 months of the reporting date	5,882	3,836
	current portion of loans and borrowings due for repayment beyond 12 months of the reporting date	98,195	105,633
	Accounts payable, including:	219,654	224,798
	suppliers and contractors	66,267	73,956
	promissory notes, bills of exchange payable	29,531	14,326
	salaries payable	2,936	5,485
	payable to state non-budget funds	1,329	1,890
	payable to budget	31,949	38,353
	advances received	2,404	3,559
13	other accounts payable	85,238	87,229
	Dividends payable	-	45
	Income of future periods	4,564	1,860
	Provisions for future expenses and payments	<u>7,366</u>	<u>26,097</u>
	<b>TOTAL Section V</b>	<b><u>405,106</u></b>	<b><u>397,129</u></b>
	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,463,744</b>	<b>2,656,709</b>

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A.B. Miller  
Chairman of the Management Committee

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E.A. Vasilieva  
Chief Accountant

**OA O GAZPROM**  
**CONSOLIDATED STATEMENT OF INCOME**  
**for the year ended 31 December 2003**  
**(in million Roubles)**

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

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A.B. Miller  
Chairman of the Management Committee

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E.A. Vasilieva  
Chief Accountant

**ОАО ГАЗПРОМ**  
**NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS**  
**(in million Roubles)**

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**1. GENERAL INFORMATION**

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

The Group operates as a vertically integrated business (see Note 4). The principal elements of the Group’s vertically integrated business are the following:

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

The Group’s assets are mainly located on the territory of the Russian Federation.

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

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION**

**Accounting principles**

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

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

*Basis of consolidation*

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

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

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

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



**OA O GAZPROM**  
**NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS**  
**(in million Roubles)**

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**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)**

*Assets and liabilities denominated in foreign currency*

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

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

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

*Current and non-current assets and liabilities*

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

*Goodwill*

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

*Fixed assets*

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

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

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

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

**ОАО ГАЗПРОМ**  
**NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS**  
**(in million Roubles)**

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**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)**

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

Fixed assets are depreciated on a straight-line basis.

The following assets are not depreciated:

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

*Construction in progress*

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

*Financial investments*

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

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

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

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

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

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

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

*Inventories*

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

**ОАО ГАЗПРОМ**  
**NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS**  
**(in million Roubles)**

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**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)**

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

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

Finished goods are carried at the historic cost of production.

*Management expenses (general administration costs)*

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

*Accounts receivable*

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

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

*Loans and borrowings issued*

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

*Provisions for future expenses and payments*

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

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

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

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

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

*Deferred taxes*

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

**OA O GAZPROM**  
**NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS**  
**(in million Roubles)**

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**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)**

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

*Revenue recognition*

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

**3. CHANGES IN THE ACCOUNTING POLICIES AND COMPARATIVE AMOUNTS**

*Changes in the accounting policies*

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

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

*Comparative amounts*

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

**Consolidated Balance Sheet comparative amounts as of 1 January 2003**

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

**OA O GAZPROM**  
**NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS**  
(in million Roubles)

**3 CHANGES IN THE ACCOUNTING POLICIES AND COMPARATIVE AMOUNTS (continued)**

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

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

**Consolidated Statement of Income comparative amounts for 2002**

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

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

*Changes in the 2004 accounting policies*

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

**OA O GAZPROM**  
**NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS**  
(in million Roubles)

**4 SEGMENT INFORMATION**

The following business segments are identified within the Group:

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

	<b>Production</b>	<b>Refining</b>	<b>Transport</b>	<b>Distribution</b>	<b>Other</b>	<b>Total</b>
<b>As of 1 January 2003</b>						
Segment assets	351,061	72,348	1,396,169	205,974	138,412	2,163,964
Unallocated assets						418,562
Inter-segment elimination						(118,782)
<b>Total assets</b>						<b>2,463,744</b>
Segment liabilities	20,920	17,189	46,664	111,996	11,261	208,030
Unallocated liabilities						656,235
Inter-segment elimination						(118,782)
<b>Total liabilities</b>						<b>745,483</b>
Capital expenditures for the period	65,630	3,817	67,427	3,191	6,048	146,113
Depreciation	18,109	1,914	73,363	1,366	2,081	96,833
Investments in associates and joint activity	17,212	9,944	3,300	12,566	14,920	57,942
<b>As of 31 December 2003</b>						
Segment assets	393,483	92,314	1,388,167	228,008	177,224	2,279,196
Unallocated assets						472,348
Inter-segment elimination						(94,835)
<b>Total assets</b>						<b>2,656,709</b>
Segment liabilities	24,801	24,568	52,454	80,751	20,312	202,886
Unallocated liabilities						667,815
Inter-segment elimination						(94,835)
<b>Total liabilities</b>						<b>775,866</b>
Capital expenditures for the period	91,056	9,447	70,311	5,044	10,500	186,358
Depreciation	20,215	2,766	74,885	1,552	3,810	103,228
Investments in associates and joint activity	15,013	1,883	5,105	11,092	19,917	53,010

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**4. SEGMENT INFORMATION (continued)**

	<b>Production</b>	<b>Refining</b>	<b>Transport</b>	<b>Distribution</b>	<b>Other</b>	<b>Total</b>
<b>For the year ended</b>						
<b>31 December 2003</b>						
<b>Segment revenues</b>						
Inter-segment sales	100,889	17,859	224,459	25,207	5,406	373,820
External sales	4,351	92,180	28,226	653,423	66,386	844,566
<b>Total segment revenues</b>	<b>105,240</b>	<b>110,039</b>	<b>252,685</b>	<b>678,630</b>	<b>71,792</b>	<b>1,218,386</b>
<b>Segment expenses</b>						
Inter-segment expenses	(3,129)	(17,662)	(32,574)	(320,455)	-	(373,820)
External expenses	(68,697)	(77,369)	(193,572)	(145,991)	(69,721)	(555,350)
<b>Total segment expenses</b>	<b>(71,826)</b>	<b>(95,031)</b>	<b>(226,146)</b>	<b>(466,446)</b>	<b>(69,721)</b>	<b>(929,170)</b>
<b>Segment gross profit</b>	<b>33,414</b>	<b>15,008</b>	<b>26,539</b>	<b>212,184</b>	<b>2,071</b>	<b>289,216</b>
<b>For the year ended</b>						
<b>31 December 2002</b>						
<b>Segment revenues</b>						
Inter-segment sales	106,155	15,956	185,776	16,974	-	324,861
External sales	3,351	53,702	17,013	493,718	45,961	613,745
<b>Total segment revenues</b>	<b>109,506</b>	<b>69,658</b>	<b>202,789</b>	<b>510,692</b>	<b>45,961</b>	<b>938,606</b>
<b>Segment expenses</b>						
Inter-segment expenses	(1,529)	(14,411)	(19,510)	(289,411)	-	(324,861)
External expenses	(60,141)	(46,181)	(152,215)	(120,317)	(46,759)	(425,613)
<b>Total segment expenses</b>	<b>(61,670)</b>	<b>(60,592)</b>	<b>(171,725)</b>	<b>(409,728)</b>	<b>(46,759)</b>	<b>(750,474)</b>
<b>Segment gross profit</b>	<b>47,836</b>	<b>9,066</b>	<b>31,064</b>	<b>100,964</b>	<b>(798)</b>	<b>188,132</b>

The inter-segment sales mainly consist of:

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

Internal transfer prices are established by the management of the Group with the objective of providing for the specific funding requirements of the individual subsidiaries within each segment. Prices are determined on the basis of the statutory accounting reports of the individual subsidiaries on a cost plus basis. The change in inter-segment sales and expenses by segment in 2003 is primarily due to changes in internal transfer prices.

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

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**5. FIXED ASSETS**

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

**6. CONSTRUCTION IN PROGRESS**

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

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

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

**7. LONG-TERM FINANCIAL INVESTMENTS**

*Investments in subsidiaries*

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



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**7. LONG-TERM FINANCIAL INVESTMENTS (continued)**

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

*Investments in associates*

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

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

*Investments in other companies*

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

*Loans issued to companies due beyond 12 months*

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

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

*Other long-term financial investments*

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

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

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**7. LONG-TERM FINANCIAL INVESTMENTS (continued)**

**Joint activity with OAO NK Rosneft**

The joint activity was established to develop the Arctic shelf (Shtokmanovskoye and Prirazlomnoye fields) in the Barents and Pechora Seas. From inception OAO Gazprom and ZAO Rosshelf, a 53% subsidiary of OAO Gazprom, had 99.1% and 0.9% direct interests in the joint activity, respectively. In October 2002 OAO Gazprom and its subsidiary ZAO Rosshelf signed an amendment to the joint activity agreement that provided for an additional participant – ZAO Sevmorneftegaz. ZAO Sevmorneftegaz is a company jointly controlled by ZAO Rosshelf and OAO NK Rosneft-Purneftegaz, a subsidiary of OAO NK Rosneft. Under the agreement, in February 2003 ZAO Sevmorneftegaz made a non-cash contribution valued at RR 4,334 thus obtaining a 48.9% interest in the jointly controlled assets of the joint activity. As a result of the transaction OAO Gazprom and ZAO Rosshelf had 48.7% and 2.4% direct interests in the joint activity, respectively, and the Group's total effective interest decreased from 99.6% to 62.9%. In July 2003 all joint activity parties and OAO NK Rosneft signed an agreement to provide OAO NK Rosneft with a 49.95% direct interest in the joint activity in recognition of its prior investments into the joint activity through OAO NK Rosneft-Purneftegaz. The effect of this transaction was to decrease the Group's total effective interest in the joint activity from 62.9% to 48.85% and to establish joint control of the assets of the joint activity between the Group and OAO NK Rosneft.

**8. ACCOUNTS RECEIVABLE**

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

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

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

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

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

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

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

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

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

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**8. ACCOUNTS RECEIVABLE (continued)**

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

**9. SHORT-TERM FINANCIAL INVESTMENTS**

*Loans issued to companies due within 12 months*

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

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

*Other short-term financial investments*

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

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

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**10. CASH FLOWS**

	<b>For 2003</b>	<b>For 2002</b>
<b>Cash at the beginning of the reporting period</b>	<b>83,118</b>	<b>68,217</b>
<b>Cash provided by operating activities</b>		
Total cash received, including:	963,149	704,292
sales of goods, products, works and services	934,728	679,297
sales of other assets	2,588	2,528
advances received from buyers (customers)	4,213	4,830
other receipts	20,170	17,637
impact of changes in exchange rates on currency transactions	1,450	-
Total cash used, including:	835,528	636,884
payment for purchased goods (work, products, services)	361,769	231,041
wages, salaries and social payments	88,625	63,705
dividend and interest payments	11,227	9,284
settlements with budget	306,626	253,286
advances paid	16,955	15,099
interest payments for borrowings received	25,058	26,401
other payments	25,268	13,147
impact of changes in exchange rates on currency transactions	-	24,921
<b>Net cash provided by operating activities</b>	<b>127,621</b>	<b>67,408</b>
<b>Cash flows used for investing activities</b>		
Total cash received, including:	75,680	33,856
sale of fixed assets and other non-current assets	700	369
sale of securities and other financial investments	26,532	15,576
return of financial investments, repayment of loans granted	17,600	2,090
other receipts	30,848	15,821
Total cash used, including:	193,214	139,842
acquisition of fixed assets and other non-current assets	7,102	3,461
acquisition of securities and other financial investments	77,942	54,953
construction in progress	86,298	65,676
other payments	21,872	15,752
<b>Net cash used for investing activities</b>	<b>(117,534)</b>	<b>(105,986)</b>
<b>Cash flows provided by financing activities</b>		
Total cash received, including:	231,907	291,443
borrowings received	231,394	291,440
other receipts	513	3
Total cash used, including:	231,388	238,480
repayment of borrowings (net of interest)	229,889	238,177
other payments	1,499	303
<b>Net cash provided by financing activities</b>	<b>519</b>	<b>52,963</b>
Net increase of cash	10,606	14,385
<b>Cash at the end of the reporting period</b>	<b>93,724</b>	<b>82,602</b>
FOR REFERENCE:		
Impact of changes in exchange rates	(1,164)	6,348

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

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**10. CASH FLOWS (continued)**

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

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

**11. EQUITY AND RESERVES**

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

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

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

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

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

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

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**12. BORROWINGS**

Lender	Currency	Maturity	As of 1 January 2003	As of 31 December 2003
Morgan Stanley AG	US Dollar	2013	-	53,199
Loan participation notes (issued September 2003)	Euro	2010	-	37,593
Salomon Brothers AG	US Dollar	see below	38,849	36,013
Credit Lyonnais	US Dollar	2005	54,325	32,556
Dresdner Bank	US Dollar	2005	39,219	20,070
OAo Sberbank RF	RR	2004	40,247	19,850
Bayerische Hypo-und Vereinsbank AG	US Dollar	2008	23,557	18,326
Deutsche Bank AG	US Dollar	2006	3,190	17,748
Intesa BCI	US Dollar	2007	23,959	16,423
Mannesmann (Deutsche Bank AG)	Euro	2008	17,909	15,424
Depfa Bank	US Dollar	2008	-	15,116
Societe Generale	US Dollar	2008	10,349	9,183
ABN AMRO	US Dollar	2004	6,473	8,964
Mitsuho Bank (Fuji Bank)	US Dollar	2010	9,598	8,816
German banking consortium	Euro	2007	8,873	7,889
International banking consortium	Euro	2007	11,728	7,733
SACE	US Dollar	2012	7,436	7,503
WestLB AG	US Dollar	2005	-	6,335
Moscow Narodny Bank	US Dollar	2006	7,507	5,215
OAo Vneshtorgbank	US Dollar	2004	21,331	4,720
Bayerische Hypo-und Vereinsbank AG	Euro	2006	6,037	4,642
Alfa Bank	US Dollar	2004	4,776	4,426
Credit Suisse First Boston	US Dollar	2006	5,366	3,481
HSBC Bank plc	US Dollar	2004	-	2,950
Commerzbank	US Dollar	2009	-	2,950
Credit Suisse First Boston	US Dollar	2004	-	2,949
AB Gazprombank (ZAO)	Euro	2007	816	2,693
Consortium of Hungarian banks	US Dollar	2005	3,858	2,380
AB Gazprombank (ZAO)	Euro	2003	6,622	-
Deutsche Bank AG	US Dollar	2003	4,938	-
OAo Sberbank RF	Euro	2003	3,350	-
OAo Bank Menatep SPb	US Dollar	2003	3,191	-
Citibank NA New York	US Dollar	2003	3,190	-
Other borrowings	Various	Various	<u>70,818</u>	<u>44,843</u>
<b>Total borrowings</b>			<b>437,512</b>	<b>419,990</b>

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

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**12. BORROWINGS (continued)**

*Bank borrowings*

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

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

As of 31 December 2003 and 2002 long-term bank borrowings included loans from Salomon Brothers AG received in 2002 in connection with the issuance of USD 500 million of Loan Participation Notes due 2007 with an interest rate of 9.125% and of USD 700 million of Loan Participation Notes due 2009 with an interest rate of 10.5%. The USD 700 million Loan Participation Notes have a put option due 21 October 2005.

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

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

*Other borrowings*

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

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

**13. TAXATION**

*Profit tax*

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

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

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

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

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**13. TAXATION (continued)**

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

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

Deductible temporary differences incurred in 2003 principally arise from:

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

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

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

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

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

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

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

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

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



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**13. TAXATION (continued)**

*Value added tax and excise tax*

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

**14. OTHER NON-CURRENT LIABILITIES**

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

During the years ended 31 December 2003 and 2002 having complied with the terms of the accelerated repayment schedules of such payables provided for by the regulation some of the Group's subsidiaries became eligible to extinguish one half of restructured tax interest and fines. The gain recorded upon extinguishment of restructured tax interest and fines is recorded in the Consolidated Statement of Income as a part of non-operating income in the amount of RR 7,073 and RR 25,378 for the years ended 31 December 2003 and 2002 (see Note 18).

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

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**15. SALES OF GOODS, PRODUCTS, WORKS AND SERVICES**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**17. OTHER OPERATING INCOME AND EXPENSES**

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

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

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**18. NON-OPERATING INCOME AND EXPENSES**

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

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

**19. PRINCIPAL CONSOLIDATED SUBSIDIARY AND ASSOCIATES**

*Principal subsidiary undertakings, 100% owned*

OOO Astrakhangazprom	OOO Informgaz	OOO Severgazprom
OOO Bashtransgaz	OOO IRTs Gazprom	OAO Severneftegazprom
OOO Burgaz	OOO Kavkaztransgaz	OOO Servicegazprom
OOO VNIlgaz	OOO Kasygazprom	OOO Liquefied gas
OOO Volgogradtransgaz	OOO Kubangazprom	OOO Surgutgazprom
OOO Volgotransgaz	OOO Lentransgaz	OOO Tatransgaz
OOO Gazkomplektimpex	OOO Mezhhregiongaz	OOO Tomsktransgaz
OOO Gaznadzor	OOO Mostransgaz	OOO TyumenNIIgiprogaz
OOO Gazobezопасnost	OOO Nadymgazprom	OOO Tyumentransgaz
OOO Gazpromavia	OOO Nadymstroygazdobytcha	OOO Uraltransgaz
OOO Gazpromstroyengineering	OOO Novourengoysky GCC	OOO Urengoygazprom
OOO Gazpromtrans	OOO Noyabrgskgazdobytcha	OOO Yugtransgaz
OOO Gazsvyaz	OOO Orenburggazprom	ZAO Yamalgazinvest
OOO Gaztorgpromstroy	OOO Permtransgaz	OOO Yamburggazdobytcha
OOO Gazflot	OOO Podzemgazprom	
OOO Gazexport	OOO Samaratransgaz	

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

*Certain other subsidiary undertakings, 100% owned*

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

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**19. PRINCIPAL CONSOLIDATED SUBSIDIARY AND ASSOCIATES (continued)**

*Other principal subsidiary undertakings*

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

**OAo Severneftegazprom**

In February 2003 the Group acquired a 51.0% additional interest in OAo Severneftegazprom from the Itera Group at the nominal value of the shares (RR 102 thousand) for cash and thereby increased its interest in the share capital of OAo Severneftegazprom to 100%. In connection with the acquisition of this interest, the Group paid RR 369 in cash to the Itera Group to settle the amount owed by OAo Severneftegazprom to finance development work. OAo Severneftegazprom, a production company, holds a license for the development of the Yuzhno-Russkoye field. OAo Severneftegazprom was accounted for as subsidiary from the date on which control was obtained. At the same time the Group sold to Itera Group a 10.0% interest in OAo Sibirsky Oil and Gas Company at its carrying value of RR 2.55 plus a 7.8% interest in OAo Tarkosaleneftegaz at its carrying value of RR 356 for cash.

**Petrochemical companies**

In the third quarter of 2002 the Group signed agreements to acquire additional interests in a number of Russian petrochemical companies, the majority of which were already affiliated with OAo AK Sibur. In April 2003, following the completion of legal procedures the Group established control over majority of these companies, including OAo Sibur-Tyumen (see Note 7), and increased its controlling interest in the share capital of OAo AK Sibur from 50.7% to 75.7%. Nominal value of long-term promissory notes issued by the Group in connection with this transaction was RR 17,587 as of 31 December 2003. In September 2003 the Group acquired an additional 2.4% interest in AK Sibur for RR 102.

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**19. PRINCIPAL CONSOLIDATED SUBSIDIARY AND ASSOCIATES (continued)**

**Media companies**

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

*Principal associates*

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

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

In February 2003 the Group sold 40.1% out of the 46.4% interest in the share capital of ZAO Agrochemical Corporation Azot at its carrying value of RR 394 for cash, reducing the Group's interest to 6.3%. The shares were sold to the other shareholders of ZAO Agrochemical Corporation Azot as a result of the latter taking advantage of the pre-emptive purchase rights. In April 2003 a part of this transaction was cancelled by an agreement of the parties. As a result the Group received back a 33.9% interest in ZAO Agrochemical Corporation Azot and returned RR 333 of the cash received in February 2003. In July 2003 the Group acquired an additional 7.2% interest in ZAO Agrochemical Corporation Azot at par value from the existing shareholders. The consideration of RR 71 was paid in cash. Accordingly, as of 31 December 2003 the Group had a 47.4% interest in ZAO Agrochemical Corporation Azot, which was included in other investments in associates.

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**20. RELATED PARTIES**

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

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

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

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

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

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

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

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

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

*Remuneration to senior management and directors*

In 2003 and 2002 OAO Gazprom paid to members of the Board of Directors and Management Committee remuneration (salary and bonuses) for the total amount of RR 243 and RR 135, respectively. The remuneration of members of the Board of Directors is subject to approval by the General shareholders meeting. Salary and bonus compensation paid to members of the Management Committee is determined by the terms of employment contracts.

**21. PROFIT PER SHARE**

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

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

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**22. CONTINGENCIES**

*Guarantees issued*

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

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

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

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

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

*Operating environment*

The Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

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



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**22. CONTINGENCIES (continued)**

*Taxation*

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

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

**23. POST BALANCE SHEET EVENTS**

*Investments*

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

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

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

Following the acquisition of additional interests in a number of Russian petrochemical companies (see Note 19) in November 2003 the Group signed an agreement with ZAO "Gazonefteknimicheskaya kompania" to acquire a 14.23% interest in OAO AK Sibur which was transferred to the Group in April 2004. Nominal value of long-term promissory note issued by the Group in connection with this transaction was RR 669 as of 31 December 2003. As a result of this transaction the Group increased its controlling interest in the charter capital of OAO AK Sibur from 78.1% to 92.3%.

*Loans and borrowings*

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

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

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

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

**ОАО ГАЗПРОМ**  
**NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS**  
**(in million Roubles)**

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**23 POST BALANCE SHEET EVENTS (continued)**

*Taxation*

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

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

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

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A.B. Miller  
Chairman of the Management  
Committee

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E.A. Vasilieva  
Chief Accountant

25 May 2004