OAO GAZPROM
IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2007

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bld. 5
115054 Moscow
Russia
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors 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 2007 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 judgement, 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 2007, 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 36 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
27 June 2008

OAO GAZPROM
IFRS CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2007
(In millions of Russian Roubles)

Notes		31 December 2007	31 December 2006
	Assets		
	Current assets		
7	Cash and cash equivalents	279,109	269,224
7	Restricted cash	12,025	12,356
8	Short-term financial assets	113,911	106,574
9	Accounts receivable and prepayments	697,464	662,040
10	Inventories	245,406	207,459
	VAT recoverable	122,558	140,305
	Other current assets	95,944	84,347
		1,566,417	1,482,305
	Non-current assets		
11	Property, plant and equipment	3,490,477	3,034,968
12, 34	Investments in associated undertakings and jointly controlled entities	670,403	318,142
13	Long-term accounts receivable and prepayments	402,382	251,123
14	Available-for-sale long-term financial assets	256,210	150,874
15, 32, 35	Other non-current assets	406,667	72,513
		5,226,139	3,827,620
	Total assets	6,792,556	5,309,925
	Liabilities and equity		
	Current liabilities		
16	Accounts payable and accrued charges	485,466	398,126
20	Current profit tax payable	23,033	18,957
17	Other taxes payable	50,530	49,423
18	Short-term borrowings and current portion of long-term borrowings	504,070	290,705
18	Short-term promissory notes payable	21,455	102,859
		1,084,554	860,070
	Non-current liabilities		
19	Long-term borrowings	981,408	668,343
19	Long-term promissory notes payable	3,555	17,186
22	Provisions for liabilities and charges	79,213	119,578
20	Deferred tax liabilities	308,353	275,508
	Other non-current liabilities	22,376	19,420
		1,394,905	1,100,035
	Total liabilities	2,479,459	1,960,105
	Equity		
23	Share capital	325,194	325,194
23	Treasury shares	(20,801)	(41,801)
23	Retained earnings and other reserves	3,646,396	2,905,065
		3,950,789	3,188,458
31	Minority interest	362,308	161,362
	Total equity	4,313,097	3,349,820
	Total liabilities and equity	6,792,556	5,309,925

A.B. Miller
Chairman of the Management Committee
27 June 2008

E.A. Vasilieva
Chief Accountant
27 June 2008

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

OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2007
(In millions of Russian Roubles)

Notes		Year ended 31 December 2007	2006
24	Sales	2,390,467	2,152,111
25	Operating expenses	(1,688,689)	(1,363,923)
	Operating profit	**701,778**	**788,188**
12	Gain from sale of interest in subsidiary	50,853	-
35	Gain from change in fair value of call option	50,738	-
32	Deconsolidation of NPF Gazfund	44,692	-
26	Finance income	159,380	97,923
26	Finance expense	(132,573)	(65,220)
12	Share of net income of associated undertakings and jointly controlled entities	24,234	26,363
	Gain on disposal of available-for-sale financial assets	25,102	8,811
	Profit before profit tax	**924,204**	**856,065**
	Current profit tax expense	(218,266)	(213,844)
	Deferred profit tax expense	(10,953)	(5,760)
20	Profit tax expense	(229,219)	(219,604)
	Profit for the year	**694,985**	**636,461**
	Attributable to:		
	Equity holders of OAO Gazprom	658,038	613,345
31	Minority interest	36,947	23,116
		694,985	**636,461**
28	**Basic and diluted earnings per share for profit attributable to the equity holders of OAO Gazprom (in Roubles)**	**28.07**	**26.90**

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(In millions of Russian Roubles)

Notes		Year ended 31 December 2007	2006
	Operating activities		
29	**Net cash provided by operating activities**	**598,508**	**544,088**
	Investing activities		
11	Capital expenditures	(543,420)	(441,001)
	Net change in loans made	(11,289)	(20,736)
	Interest received	70,154	34,501
11	Interest capitalised	(19,661)	(17,275)
30	Acquisition of subsidiaries, net of cash acquired	(6,749)	(5,091)
12, 34	Acquisition of associated undertakings and jointly controlled entities	(280,511)	(60,182)
34, 36	Additional investment in associated undertakings and jointly controlled entities	(59,890)	-
32	Decrease in cash due to NPF Gazfund deconsolidation	(18,518)	-
12	Proceeds from sales of interest in subsidiary	21,434	-
	Proceeds from associated undertakings and jointly controlled entities	10,487	423
	Purchases of long-term available-for-sale financial assets	(64,929)	(1,653)
	Change in other long-term assets	10,651	(1,237)
	Net cash used for investing activities	**(892,241)**	**(512,251)**
	Financing activities		
19	Proceeds from long-term borrowings (including current portion)	658,802	188,727
19	Repayment of long-term borrowings (including current portion)	(198,527)	(179,262)
	Net (repayment of) proceeds from issue of promissory notes	(96,030)	89,210
18	Net proceeds from short-term borrowings	70,901	54,269
23	Dividends paid	(69,329)	(33,898)
	Interest paid	(74,152)	(38,668)
23	Purchases of treasury shares	(659,223)	(246,535)
23	Sales of treasury shares	676,933	254,887
7	Change in restricted cash	331	5,684
	Net cash provided by financing activities	**309,706**	**94,414**
	Effect of exchange rate changes on cash and cash equivalents	(6,088)	(3,893)
	Increase in cash and cash equivalents	**9,885**	**122,358**
	Cash and cash equivalents, at the beginning of reporting period	269,224	146,866
	Cash and cash equivalents, at the end of the year	**279,109**	**269,224**

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(In millions of Russian Roubles)

Notes		Number of shares outstanding (billions)	Attributable to equity holders of OAO Gazprom: Share capital	Treasury shares	Retained earnings and other reserves	Total	Minority interest	Total equity
	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		-	-	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 year		-	-	613,345	613,345	23,116	636,461
	Total recognised income for the year		-	-	670,238	670,238	23,116	693,354
23	Net treasury shares transactions	0.0	-	(22,297)	12,895	(9,402)	-	(9,402)
23	Return of social assets to governmental authorities		-	-	(14,562)	(14,562)	-	(14,562)
23	Dividends		-	-	(34,233)	(34,233)	(9,110)	(43,343)
31	Business combinations and purchase of minority interest		-	-	-	-	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
	Gains arising from change in fair value of available-for-sale financial assets		-	-	21,201	21,201	-	21,201
23	Translation differences				4,829	4,829	-	4,829
	Net gain recognised directly in equity		-	-	26,030	26,030	-	26,030
	Profit for the year		-	-	658,038	658,038	36,947	694,985
	Total recognised income for the year		-	-	684,068	684,068	36,947	721,015
23	Net treasury shares transactions	0.1	-	12,162	3,631	15,793	-	15,793
23	Return of social assets to governmental authorities		-	-	(3,897)	(3,897)	-	(3,897)
23	Dividends		-	-	(59,765)	(59,765)	(9,320)	(69,085)
32	Deconsolidation of NPF Gazfund	0.6	-	8,838	111,015	119,853	90,844	210,697
33	Acquisition of the controlling interest in OAO Mosenergo		-	-	6,279	6,279	61,964	68,243
	Disposal of shares in subsidiaries		-	-	-	-	20,511	20,511
	Balance as of 31 December 2007	23.6	325,194	(20,801)	3,646,396	3,950,789	362,308	4,313,097

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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 a major exporter of gas to European countries. The Group is engaged in oil production and refining activities.

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, electric and heat energy generation, construction, and media.

The weighted average number of full time employees during 2007 and 2006 was 445 thousand and 440 thousand, respectively.

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").

Certain reclassifications have been made to the comparative prior period balances to conform to the current period presentation.

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).

In the first quarter of 2007 the Group ceased to consolidate the non-governmental pension fund, NPF Gazfund (see Note 32).

Although NPF Gazfund is now deconsolidated, the Group continues to consolidate OAO Gazprombank and its subsidiaries (including Sibur-Holding and Gazprom Media) because the Group has a history of and as of 31 December 2007 casted the majority of the votes at the meetings of the board of directors of OAO Gazprombank, and thereby exercised de facto control over the bank and its subsidiaries. As of 31 December 2007, the Group owns approximately 46 % of the voting shares of OAO Gazprombank and the bank owns 74 % and 100 % of Sibur-Holding and Gazprom Media, respectively.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Group accounting

Subsidiary undertakings

The Group's subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from the activities of those entities. Subsidiary undertakings in which the Group, directly or indirectly, has an interest of more than 50% of the voting rights and is able to exercise control over the operations have been consolidated. Also subsidiary undertakings include entities in which the Group controls less than 50% of the voting share capital but where the Group controls the entity through other means. This may include a history of casting the majority of the votes at the meetings of the board of directors or equivalent governing body.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries, including those entities and businesses that are under common control. 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 and jointly controlled entities

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Jointly controlled entities are entities which are controlled by two or more parties. Investments in jointly controlled entities are also accounted for using the equity method.

4.2 Financial assets

The Group classifies its financial assets in the following categories: (a) financial assets at fair value through profit or loss, (b) available-for-sale financial assets, and (c) loans and receivables. 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. Assets in this category are classified as current assets if they 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 2007 and 2006.

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.

(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 fair value. 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 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.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

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 but recognized in statement of changes in equity.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, commodities, 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.

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 fulfill 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. 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

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.

4.5 Options on purchase or sale of financial assets

Options on purchase or sale of financial assets are carried at their fair value. These options are accounted for as assets when their fair value is positive (for call options) and as liabilities when the fair value is negative (for put options). Changes in the fair value of these options instruments are included in the consolidated statement of income.

4.6 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 and cash equivalents in the consolidated statement of cash flows.

4.7 Accounts receivable

Accounts receivable are carried at original invoice amount less provision made for impairment of these receivables. The provision for impairment of accounts receivable 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 12 months overdue) are considered indicators that the receivable is impaired. 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. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of income within operating expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables or is included in other operating expenses.

4.8 Value added tax (VAT)

Output VAT 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.

(In millions of Russian Roubles)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 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.

4.10 Property, plant and equipment

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

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

Costs of unsuccessful exploratory wells are expensed upon determination that the well does not justify commercial development. Other exploration costs are expensed as incurred. Exploration costs are classified as research and development expenses within operating expenses.

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:

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

Depreciation on wells has been calculated on cost, using the straight line method rather than, as is the more generally accepted international industry practice, on the unit-of-production method. 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation expenses in the consolidated statement of income do not include depreciation, which 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.

4.11 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. 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.

4.12 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.

4.13 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, associated 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.

4.14 Foreign currency transactions

Monetary assets and liabilities held by the Group as of 31 December 2007 and 2006 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 24.55 and 26.33 as of 31 December 2007 and 2006, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 35.93 and 34.70 as of 31 December 2007 and 2006, 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 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 (and subsequent revisions to the estimates) of the cost of dismantling and removing the property, plant and equipment are capitalised as property, plant and equipment.

4.16 Equity

Treasury shares

When the Group companies purchase the equity share capital of OAO Gazprom, 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.

4.17 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 products prices, as stipulated in long-term contracts. Export gas prices for sales to Former Soviet Union countries are generally based on contracts, renegotiated periodically.

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 consolidated cash flow statement. Investing and financing activities and the total of operating activities represent actual cash flows.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4.18 Interest

Interest income and expense are recognised in the consolidated statement of income for all interest bearing financial 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.

4.19 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.

4.20 Employee benefits

Pension and other post-retirement benefits

The Group operates a defined benefit plan, concerning the majority employees of the Group. Pension costs are recognised using the projected unit credit method. The cost of providing pensions is charged to staff 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% of unrecognized gains or losses (see Note 22).

Plan assets are measured at fair value and are subject to certain limitations (see Note 32).

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

Social expenses

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

4.21 Financial instruments

Financial instruments carried on the 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 (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

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.

4.22 Recent accounting pronouncements

In 2007 the Group has adopted all IFRS, amendments and interpretations which are effective 1 January 2007 and which are relevant to its operations.

Effective 1 January 2007, the Group adopted IFRS 7 "Financial Instruments: Disclosures" ("IFRS 7") and the complementary Amendment to IAS 1 "Presentation of Financial Statements - Capital Disclosures". IFRS 7 introduced new disclosures relating to financial instruments and did not have any impact on the classification and valuation of the Group's financial instruments. IFRS 7 replaced 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" ("IAS 32"). The Amendment to IAS 1 introduced disclosures about level of the Group's capital and how it manages capital. The new disclosures are made in these consolidated financial statements.

The adoption of IFRIC 8 "Scope of IFRS 2" ("IFRIC 8"), IFRIC 9 "Reassessment of Embedded Derivatives" ("IFRIC 9") and IFRIC 11 "IFRS 2—Group and Treasury Share Transactions" ("IFRIC 11") effective 1 January 2007 did not have a material effect on the consolidated financial statements of the Group.

Effective 1 January 2007, the Group early adopted IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" ("IFRIC 14"). IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19 "Employee Benefits" ("IAS 19"); how a minimum funding requirement might affect the availability of reductions in future contributions, and when a minimum funding requirement might give rise to a liability. The adoption of IFRIC 14 has not had any effects on prior accounting periods. The effect of application of IFRIC 14 in the current period is described in Note 32.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards where applicable, otherwise IAS 8 "Accounting policies, changes in accounting estimates and errors" 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 8 "Operating Segments" ("IFRS 8"), 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 consolidated 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 application of IFRIC 12 is not expected to materially affect the Group's consolidated financial statements.

- IFRIC 13 "Customer Loyalty Programmes" ("IFRIC 13"), which is effective for annual periods beginning on or after 1 July 2008. IFRIC 13 addresses whether the entity's obligations to provide free or discounted goods or services in the future should be recognized and measured, and if consideration is allocated to the award credits how much should be allocated to them, when revenue should be recognized and, if a third party supplies the awards, how revenue should be measured. The application of IFRIC 13 is not expected to materially affect the Group's consolidated financial statements.

- Amendment to IAS 1 "Presentation of Financial Statements" ("IAS 1"), which is effective for annual periods beginning on or after 1 January 2009. The main change in IAS 1 is the replacement of the statement of income by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

- Amendment to IAS 32 and IAS 1 ("Puttable financial instruments and obligations arising on liquidation"), which is effective from 1 January 2009. The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. Management does not expect the amendment to materially affect the Group's consolidated financial statements.

- Amendment to IAS 27 "Consolidated and Separate Financial Statements" ("IAS 27"), which is effective for annual periods beginning on or after 1 July 2009. The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Amendment to IFRS 3 "Business Combinations" ("IFRS 3"), which is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

- Amendment to IFRS 2 "Share-based Payment" ("Vesting Conditions and Cancellations"), which is effective for annual periods beginning on or after 1 January 2009. The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The application of the amended standard is not expected to materially affect the Group's financial statements.

- Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. Management does not expect the amendments to have any material effect on the Group's consolidated financial statements.

- Amendment to IFRS 1 and IAS 27 ("Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"), which is effective for annual periods beginning on or after 1 January 2009. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Group's consolidated 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 37).

5.2 Uncertain tax positions

The Group's uncertain tax positions (potential tax gains and losses) 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 available-for-sale financial assets

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

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.

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 judgement. This judgement 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 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

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 judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Based on the terms included in the licenses and past experience, management believes hydrocarbon production licenses will be extended past their current expiration dates at insignificant additional costs. Because of the anticipated license extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

5.6 Consolidation of subsidiaries

Management judgement is involved in the assessment of control and the consolidation of certain affiliated entities in the Group's consolidated financial statements. In certain cases, such as OAO Gazprombank, Sibur-Holding and Gazprom-Media, management has determined that control exists despite the fact that less than 50% of the voting shares are owned by Group companies (see Note 3). Management judgement was also required with respect to the deconsolidation of NPF Gazfund (see Note 32).

5.7 Fair value estimation for financial instruments

The fair value of financial assets and liabilities, other than financial instruments that are traded in an active market, is determined by applying valuation techniques. Discounted cash flow analysis is used for loans and receivables as well as debt instruments that are not traded in active markets. Management uses its judgement to make assumptions based on market conditions existing at each balance sheet date (see Note 4).

5.8 Fair value estimation for acquisitions

In accordance with IFRS 3, the Group recognizes the assets and liabilities acquired in a business combination based upon their fair values. In cases where market values are available such values are utilized in the measurement of acquired assets and liabilities. When market values are not available, fair value determination includes discounted cash flow models based upon management's assumptions and estimates regarding future cash flows.

5.9 Accounting for plan assets and pension liabilities

Pension plan liabilities are estimated using actuarial techniques and assumptions. Actual results may differ from the estimates, and the Group's estimates can be revised in the future. In addition, certain plan assets included in NPF Gazfund are estimated using the fair value estimation techniques described at 5.7. The recognition of plan assets is limited by the estimated present value of future benefits, available to the Group in relation to this plan. The value of plan assets and the limit are subject to revision in the future.

(In millions of Russian Roubles)

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, electric and heat energy generation.

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

	Production of gas	Transport	Distribution	Production of crude oil and gas condensate	Refining	Other	Total
31 December 2007							
Segment assets	1,096,544	1,685,608	555,074	704,395	333,051	1,149,205	5,523,877
Associated undertakings and jointly controlled entities	74,664	32,258	51,178	457,972	33,346	20,985	670,403
Unallocated assets							849,638
Inter-segment eliminations							(251,362)
Total assets							6,792,556
Segment liabilities	102,058	150,933	178,399	90,399	89,601	283,446	894,836
Unallocated liabilities							1,835,985
Inter-segment eliminations							(251,362)
Total liabilities							2,479,459
Capital additions	187,486	193,664	39,379	62,427	39,195	46,251	568,402
Depreciation	43,404	83,238	1,143	33,426	14,379	7,987	183,577
Charge for impairment provisions and other provisions	8,789	20,497	1,462	1,824	3,811	6,029	42,412
Unallocated impairment provisions and other provisions							1,526
Total impairment provisions and other provisions							43,938

(In millions of Russian Roubles)

6 SEGMENT INFORMATION (continued)

	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	69,571	184,108	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

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.

(In millions of Russian Roubles)

6 SEGMENT INFORMATION (continued)

	Production of gas	Transport	Distribution	Production of crude oil and gas condensate	Refining	Other	Total
Year ended 31 December 2007							
Segment revenues							
Inter-segment sales	245,206	493,517	64,560	95,418	6,242	-	904,943
External sales	5,623	41,740	1,522,080	167,758	492,438	160,828	2,390,467
Total segment revenues	250,829	535,257	1,586,640	263,176	498,680	160,828	3,295,410
Segment expenses							
Inter-segment expenses	(5,129)	(51,669)	(722,383)	-	(110,013)	(15,749)	(904,943)
External expenses	(225,579)	(337,159)	(486,476)	(174,729)	(297,746)	(131,231)	(1,652,920)
Total segment expenses	(230,708)	(388,828)	(1,208,859)	(174,729)	(407,759)	(146,980)	(2,557,863)
Segment result	20,121	146,429	377,781	88,447	90,921	13,848	737,547
Unallocated operating expenses							(35,769)
Operating profit							701,778
Share of net income of associated undertakings and jointly controlled entities	4,409	2,654	5,461	4,299	6,795	616	24,234

(In millions of Russian Roubles)

6 SEGMENT INFORMATION (continued)

	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

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 for own needs and the Other segments for electric and heat energy generation;
- 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, mostly for gas and transportation services, 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.

(In millions of Russian Roubles)

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 2,974 and RR 2,877 as of 31 December 2007 and 2006, respectively, which are restricted as to withdrawal under the terms of certain borrowings. In addition, restricted cash comprises cash balances of RR 9,051 and RR 9,479 as of 31 December 2007 and 2006, respectively, in subsidiary banks, which are restricted as to withdrawal under banking regulations.

The table below analyses credit quality of the Group's cash and cash equivalents by external credit ratings of its banks (published by Standard and Poor's and other credit agencies). The table below uses Standard and Poor's rating classification:

	31 December 2007	31 December 2006
Cash on hand	13,218	12,191
External credit rating of BB and above	206,416	184,030
External credit rating of B	46,299	33,838
No external credit rating	13,176	39,165
Total cash and cash equivalents	279,109	269,224

Sovereign credit rating of the Russian Federation published by Standard and Poor's is BBB+[1].

8 SHORT-TERM FINANCIAL ASSETS

Notes		31 December 2007	31 December 2006
	Financial assets held for trading:		
37	Corporate bonds	57,203	31,462
	Corporate shares	13,618	36,444
	Government and municipal bonds	13,343	9,388
	Promissory notes	12,145	7,522
		96,309	84,816
	Available-for-sale financial assets:		
37	Bonds	1,730	14,998
	Promissory notes (net of impairment provision of RR 3,171 and RR 4,353 as of 31 December 2007 and 2006, respectively)	15,872	6,760
		17,602	21,758
	Total short-term financial assets	113,911	106,574

Financial assets held for trading owned by OAO Gazprombank amounted to RR 88,933 and RR 33,977 as of 31 December 2007 and 2006, respectively. These assets primarily comprise marketable equity and debt securities intended to generate short-term profits through trading.

Financial assets held for trading owned by NPF Gazfund amounted to RR 46,340 as of 31 December 2006 (see Note 32).

Information about credit quality of short-term financial assets is presented in the table below with reference to external credit ratings of related counterparties or instruments (published by Standard and Poor's and other rating agencies). The table below uses Standard and Poor's rating classification:

	31 December 2007	31 December 2006
External credit rating of BB and above	78,486	74,609
External credit rating of B	8,688	10,315
No external credit rating	26,737	21,650
Total short-term financial assets	113,911	106,574

Short-term financial assets with no external credit rating are mainly represented by investments in debt and equity securities quoted on Russian stock market.

[1] By international scale in foreign currency.

(In millions of Russian Roubles)

9 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2007	31 December 2006
Financial assets		
Trade receivables (net of impairment provision of RR 70,820 and RR 66,020 as of 31 December 2007 and 2006, respectively)	307,311	254,082
Other receivables (net of impairment provision of RR 19,669 and RR 23,951 as of 31 December 2007 and 2006, respectively)	270,044	293,899
	577,355	547,981
Non-financial assets		
Prepayments and advances (net of impairment provision of RR 559 and RR 1,991 as of 31 December 2007 and 2006, respectively)	120,109	114,059
Total accounts receivable and prepayments	697,464	662,040

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

As of 31 December 2007 and 2006 RR 211,416 and RR 199,772 of trade receivables, net of impairment provision, respectively, are denominated in foreign currencies, mainly US dollar and Euro (see Note 38).

As of 31 December 2007 and 2006 other receivables include RR 215,926 and RR 243,735, respectively, relating to the operations of OAO Gazprombank. 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 2007 the average effective interest rates on banking deposits and loans ranged from 7.0% to 13.5% on balances denominated in Russian Roubles and from 3.3% to 8.8% on balances denominated in foreign currencies.

As of 31 December 2006 the average effective interest rates on banking deposits and loans ranged from 6.4% to 11.0% on balances denominated in Russian Roubles and 4.2% to 9.1% on balances denominated in foreign currencies.

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 3% and 7% of accounts receivable settled during the years ended 31 December 2007 and 2006, respectively, were settled via mutual settlements or other non-cash settlements.

As of 31 December 2007 and 2006, trade receivables of RR 29,756 and RR 35,928, respectively, were past due but not impaired. These mainly relate to a number of customers for whom there is no recent history of material default. The ageing analysis of these trade receivables is as follows:

Ageing from the due date	31 December 2007	31 December 2006
Up to 6 months	20,251	20,064
From 6 to 12 months	1,176	2,208
From 1 to 3 years	3,444	5,883
More than 3 years	4,885	7,773
	29,756	35,928

As of 31 December 2007 and 2006, trade receivables of RR 88,852 and RR 76,745, respectively, were impaired and provided for. The amount of the provision was RR 70,820 and RR 66,020 as of 31 December 2007 and 2006, respectively. The individually impaired receivables mainly relate to gas sales to certain Russian regions and FSU countries, which are in difficult economic situations. Management assesses a portion of the receivables will be recovered. The ageing analysis of these receivables is as follows:

Ageing from the due date	Gross book value 31 December		Provision 31 December		Net book value 31 December	
	2007	2006	2007	2006	2007	2006
Up to 6 months	9,824	3,673	(6,533)	(3,665)	3,291	8
From 6 to 12 months	10,623	5,910	(8,028)	(5,901)	2,595	9
From 1 to 3 years	29,562	18,019	(23,953)	(16,164)	5,609	1,855
More than 3 years	38,843	49,143	(32,306)	(40,290)	6,537	8,853
	88,852	76,745	(70,820)	(66,020)	18,032	10,725

(In millions of Russian Roubles)

9 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

As of 31 December 2007 and 2006, trade and other receivables of RR 259,523 and RR 207,429, respectively, were neither past due nor impaired. Management's experience indicates customer payment histories vary by geography. The credit quality of these assets can be analysed as follows:

	31 December 2007	31 December 2006
Far abroad gas, crude oil, gas condensate and refined products debtors	151,983	123,050
FSU gas, crude oil, gas condensate and refined products debtors	53,121	46,091
Domestic gas, crude oil, gas condensate and refined products debtors	26,867	19,222
Transportation services debtors	2,287	1,580
Other trade debtors	25,265	17,486
Total trade and other receivables neither past due, nor impaired	**259,523**	**207,429**

As of 31 December 2007 and 2006, trade receivables that would otherwise be past due whose terms have been renegotiated, amounted to RR 7,445 and RR 36,346, respectively.

Movements on the Group provision for impairment of trade receivables and other receivables are as follows:

	Trade receivables Year ended 31 December		Other receivables Year ended 31 December	
	2007	**2006**	**2007**	**2006**
Impairment provision at the beginning of the year	66,020	68,960	23,951	25,399
Impairment provision recognised in the consolidated statement of income	12,614	10,802	893	5,697
Write-off of receivables during the year	(529)	(1,927)	(41)	(2,953)
Release of previously created provision	(4,913)	(8,137)	(5,134)	(4,192)
Unwind of discounting	(2,372)	(3,678)	-	-
Impairment provision at the end of the year	70,820	66,020	19,669	23,951

The creation and release of provision for impaired receivables have been included in operating expenses in the consolidated statement of income (Note 25). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

10 INVENTORIES

	31 December 2007	31 December 2006
Gas in pipelines and storage	109,840	89,993
Materials and supplies (net of an obsolescence provision of RR 1,653 and RR 1,697 as of 31 December 2007 and 2006, respectively)	89,675	75,450
Goods for resale (net of an obsolescence provision of RR 143 and RR 155 as of 31 December 2007 and 2006, respectively)	18,376	18,041
Crude oil and refined products	27,515	23,975
	245,406	207,459

(In millions of Russian Roubles)

11 PROPERTY, PLANT AND EQUIPMENT

	Pipelines	Wells	Machinery and equipment	Buildings and roads	Production licenses	Social assets	Assets under construction	Total
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**
Depreciation	(44,298)	(18,561)	(60,286)	(36,273)	(22,619)	(2,559)	-	(184,596)
Additions	69	84	16,422	903	17,595	188	533,141	568,402
Acquisition of subsidiaries	-	-	49,834	42,920	-	25	16,575	109,354
Transfers	77,261	60,499	109,078	100,231	-	2,861	(349,930)	-
Disposals	(146)	(594)	(5,464)	(7,413)	-	(5,748)	(18,276)	(37,641)
Charge for impairment provision	55	38	132	22	-	-	(257)	(10)
Net book value at 31.12.07	**871,943**	**402,771**	**639,609**	**694,999**	**269,425**	**55,482**	**556,248**	**3,490,477**
As of 31.12.07								
Cost	1,698,146	654,681	1,190,182	1,156,744	322,907	83,597	556,248	5,662,505
Accumulated depreciation	(826,203)	(251,910)	(550,573)	(461,745)	(53,482)	(28,115)	-	(2,172,028)
Net book value at 31.12.07	**871,943**	**402,771**	**639,609**	**694,999**	**269,425**	**55,482**	**556,248**	**3,490,477**

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 92,060 and RR 91,803 as of 31 December 2007 and 2006, 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 2,326 and RR 2,574 as of 31 December 2007 and 2006, 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 7,080 and RR 11,573 as of 31 December 2007 and 2006, respectively.

Included in additions above is capitalized interest of RR 19,661 and RR 17,275 for the years ended 31 December 2007 and 2006, respectively. Capitalization rates of 7.0% were used representing the weighted average borrowing cost of the relevant borrowings for the years ended 31 December 2007 and 2006.

Included in property, plant and equipment above are fully depreciated assets which are still in service with a gross cost of RR 873,129 and RR 830,107 as of 31 December 2007 and 2006, respectively. Included in additions are non-cash additions of RR 63,904 and RR 39,907 for the years ended 31 December 2007 and 2006, respectively.

Depreciation includes RR 1,518 and RR 1,548 for the years ended 31 December 2007 and 2006, 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 16,470 and RR 20,507 of depreciation as of 31 December 2007 and 2006, 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. Based upon the terms included in the licenses and past experience, 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.

(In millions of Russian Roubles)

12 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES

Notes		Carrying value as of 31 December 2007	2006	Group's share of the profit (loss) of the entities for the Year ended 31 December 2007	2006
34	Sakhalin Energy Investment Company Ltd.	239,606	-	669	-
	OAO NGK Slavneft	145,464	140,165	10,007	13,662
	OAO Tomskneft	88,181	-	-	-
36	OAO Novatek	68,973	63,426	3,631	538
36	WINGAS GmbH	31,339	6,197	4,302	3,484
36	SGT EuRoPol GAZ S.A.	31,131	30,865	2,664	1,174
	OAO Moscovsky NPZ	15,548	15,266	282	24
33, 36	OAO Mosenergo	-	16,751	(125)	2,571
	Wintershall AG	10,259	-	-	-
	OAO Moscow United Electricity Network Company*	-	5,643	-	834
36	TOO KazRosGaz	4,388	1,934	2,747	1,341
36	OAO Stroytransgaz	3,638	3,559	79	22
	OAO Moscow City Electricity Network Company*	-	2,823	-	618
	AO Latvijas Gaze	3,571	3,109	563	352
	OAO Moscow Heating Network Company*	-	2,412	-	(77)
	AO Lietuvos Dujos	2,095	1,756	391	179
	ZAO Nortgaz	2,843	2,272	795	974
	Blue Stream Pipeline company B.V.	895	1,063	(10)	(126)
36	RosUkrEnergo AG	73	-	(5,720)	(2,624)
	Other (net of provision for impairment of RR 5,819 and RR 5,312 as of 31 December 2007 and 2006, respectively)	22,399	20,901	3,959	3,417
		670,403	318,142	24,234	26,363

* Companies established under restructuring of OAO Mosenergo, disposed in current period due to the deconsolidation of NPF Gazfund (see Note 32).

	For the Year ended 31 December 2007	2006
Balance at the beginning of the reporting period	318,142	233,782
Share of net income of associated undertakings and jointly controlled entities	24,234	26,363
Distribution from associated undertakings and jointly controlled entities	(10,933)	(12,125)
Translation differences	3,683	(265)
Net acquisitions	335,277	70,387
Balance at the end of the reporting period	670,403	318,142

In accordance with the agreement with BASF AG to swap certain assets on December 17, 2007 the Group received 15% less one share in Wintershall Gas GmbH (WINGAS GmbH), increasing its share in the entity from 35% to 50% less one share and 49% in Wintershall AG, the license holder for the development of certain Libyan oil concessions (C96 C97). These investments are shown within Investments in associated undertakings and jointly controlled entities on the consolidated balance sheet in the amount of RR 19,620 (Euro 546 million) and RR 10,259 (Euro 286 million), respectively. The Group also received Euro 598 million in cash. BASF AG received 25% less one ordinary share and one non voting share, which is equal to 10% of income from the project, in OAO Severneftegazprom. The gain resulting from sale of interest in subsidiary is included in the consolidated statement of income as a separate line item.

(In millions of Russian Roubles)

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

In December 2007, the Group acquired 50% of the voting shares of OAO Tomskneft for RR 88,181 paid in cash. OAO Tomskneft is a large oil producing company. The purchase consideration approximated the fair value of the acquired share in OAO Tomskneft at the date of acquisition.

Investment in RosUkrEnergo AG with a carrying value of RR 73 and nil as of 31 December 2007 and 2006, respectively is stated net of unrealized profit in the amount of RR 448 and RR 5,166 arising from the Group's gas sales to RosUkrEnergo AG (see Note 36).

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

	Assets	Liabilities	Revenues	Profit (loss)
31 December 2007				
Sakhalin Energy Investment Company Ltd.*	454,270	83,904	21,143	(31,442)
OAO NGK Slavneft	402,339	101,857	159,584	13,625
WINGAS GmbH	112,143	92,028	215,230	8,733
OAO Novatek	103,975	22,163	62,431	18,736
RosUkrEnergo AG	96,683	74,609	259,059	20,770
OAO Tomskneft*	74,479	53,067	-	-
SGT EuRoPol GAZ S.A.	62,469	25,571	14,249	5,441
OAO Stroytransgaz	58,244	39,315	37,971	428
Blue Stream Pipeline company B.V.	57,621	54,155	6,734	(39)
OAO Moscovsky NPZ	43,633	3,615	9,611	696
AO Lietuvos Dujos	25,420	5,472	10,413	1,056
AO Latvijas Gaze	24,374	7,694	12,081	1,656
Wintershall AG*	23,216	12,261	-	-
TOO KazRosGaz	9,693	916	15,921	5,494
ZAO Nortgaz	7,911	2,339	5,498	1,559
31 December 2006				
OAO NGK Slavneft	367,224	86,062	173,376	27,405
WINGAS GmbH	126,930	119,023	208,639	11,027
RosUkrEnergo AG	115,256	94,036	196,641	21,644
OAO Novatek**	84,326	15,650	11,726	2,777
OAO Mosenergo	75,958	36,844	67,243	8,596
Blue Stream Pipeline company B.V.	62,094	58,336	6,949	(501)
SGT EuRoPol GAZ S.A.	57,819	29,465	11,760	2,447
OAO Moscow united Electricity Network Company	47,626	17,601	25,448	2,989
OAO Stroytransgaz	46,285	27,214	45,923	669
OAO Moskovsky NPZ	42,931	3,615	6,884	63
AO Lietuvos Dujos	23,064	4,478	7,729	587
OAO Moscow city Electricity Network Company	19,580	2,242	10,069	2,140
OAO Moscow Heating Network Company	16,982	4,648	11,524	(276)
AO Latvijas Gaze	16,515	4,777	8,978	1,034
ZAO Nortgaz	6,277	1,825	5,552	1,980
TOO KazRosGaz	5,191	1,323	11,112	2,682

* The revenues and profit (loss) of OAO Tomskneft are not disclosed as it was acquired on December 25, 2007. The revenues and profit (loss) of Wintershall AG are not disclosed as it was acquired in late 2007. The revenues and profit (loss) of Sakhalin Energy Investment Company Ltd. for the year 2007 are disclosed from the date of acquisition.

** The revenues and profit (loss) of OAO Novatek for the year 2006 are disclosed from the date of acquisition.

(In millions of Russian Roubles)

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 2007	31 December 2006
OAO Novatek	111,149	98,455
AO Latvijas Gaze	7,161	6,984
AO Lietuvos Dujos	6,365	6,658

Principal associated undertakings and jointly controlled entities

Entities	Country	Nature of operations	% of ordinary shares held as of 31 December* 2007	2006
ZAO Achimgaz	Russia	Gas production	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	Austria	Gas distribution	38	38
SGT EuRoPol GAZ	Poland	Transportation and gas distribution	48	48
Gaz Project Development Central Asia AG	Switzerland	Gas distribution	50	50
AO Gazum	Finland	Gas distribution	25	25
TOO KazRosGaz	Kazakhstan	Gas processing and sale of gas and refined products	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
OAO Moskovsky NPZ	Russia	Processing and distribution of refined products	39	39
ZAO Nortgaz	Russia	Exploration and production of gas	51	51
OAO Novatek	Russia	Production and distribution of gas	19	19
AO Overgaz Inc.	Bulgaria	Gas distribution	50	50
ZAO Panrusgaz	Hungary	Gas distribution	40	40
AO Prometheus Gas	Greece	Foreign trade activity, construction	50	50
RosUkrEnergo AG	Switzerland	Gas distribution	50	50
Sakhalin Energy Investment Company Ltd.	Bermuda Islands	Oil production	50	-
AO NGK Slavneft	Russia	Sale of oil and refined products	50	50
OAO Tomskneft	Russia	Oil production	50	-
AO Turusgaz	Turkey	Gas distribution	45	45
Wintershall AG	Germany	Investments into oil-and-gas assets	49	-
Wintershall Gas GmbH (WINGAS GmbH)	Germany	Transportation and gas distribution	50	35
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	Germany	Gas distribution	50	50
Wintershall Erdgas Handelshaus ZUG AG (WIEE)	Switzerland	Gas distribution	50	50

*Cumulative share of Group companies in charter capital of investments.

(In millions of Russian Roubles)

13 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2007	2006
Long-term accounts receivable and prepayments (net of impairment provision of RR 17,507 and RR 15,085 as of 31 December 2007 and 2006, respectively)	270,430	191,816
Advances for assets under construction (net of impairment provision of RR 127 and RR 85 of 31 December 2007 and 2006, respectively)	131,952	59,307
	402,382	251,123

Long-term accounts receivable and prepayments include amounts due from South Pars of RR nil and RR 3,082 as of 31 December 2007 and 2006, 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 2007 and 2006, long-term accounts receivable and prepayments include RR 180,620 and RR 99,380, respectively, relating to operations of OAO Gazprombank. These balances mainly represent long-term loans issued to customers at commercial rates based on credit risks and maturities.

As of 31 December 2007 and 2006, long-term accounts receivable and prepayments with carrying value RR 270,430 and RR 191,816 have the estimated fair value RR 268,144 and RR 186,605, respectively. These receivables include long-term accounts receivable of RR 207,039 and RR 119,251 as of 31 December 2007 and 2006, respectively, which were impaired and provided for. The amount of the provision was RR 17,507 and RR 15,085 as of 31 December 2007 and 2006, respectively. These receivables mainly relate to OAO Gazprombank operations.

As of 31 December 2007 and 2006, long-term accounts receivable of RR 689 and RR 114, respectively, were past due but not impaired.

As of 31 December 2007 and 2006, long-term accounts receivable of RR 80,209 and RR 87,536, respectively, were neither past due, nor impaired. The credit quality of these assets can be analysed as follows:

	Year ended 31 December 2007	2006
Accounts receivable of OAO Gazprombank	12,516	13,655
Long-term loans	31,697	20,411
Long-term trade receivables	26,267	41,854
Other long-term receivables	9,729	11,616
Total long-term accounts receivable neither past due, nor impared	**80,209**	**87,536**

Management experience indicates that long-term loans and other long-term receivables are of lower quality than accounts receivable of OAO Gazprombank and long-term trade receivables.

As of 31 December 2007 and 2006, trade receivables that would otherwise be past due whose terms have been renegotiated, amounted to RR 9,974 and RR 18,221, respectively.

Movements on the Group provision for impairment of accounts receivable are as follows:

	Year ended 31 December 2007	2006
Impairment provision at the beginning of the year	15,085	14,857
Impairment provision recognised in the consolidated statement of income	3,261	1,104
Write-off of receivables during the year	-	(1)
Release of previously created provision	(839)	(875)
Impairment provision at the end of the year	17,507	15,085

(In millions of Russian Roubles)

14 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

	31 December 2007	31 December 2006
Equity instruments (RAO UES of Russia)	143,407	128,599
Equity instruments (WGC-2, WGC-5, WGC-6, TGC-5)	46,693	1,376
Equity instruments (net of provision for impairment of RR 2,209 and RR 10,113 as of 31 December 2007 and 2006, respectively)	63,192	15,106
Debt instruments (net of provision for impairment of RR 258 and RR 140 as of 31 December 2007 and 2006, respectively)	2,918	5,793
	256,210	150,874

The Group held a 10.49% interest in the share capital of RAO UES of Russia as of 31 December 2007 and 2006. The Group held 13.62%, 5.27%, 17.73% and 5.00% interests in the share capitals of OAO WGC-2, OAO WGC-5, OAO WGC-6 and OAO TGC-5 as of 31 December 2007, respectively. As of 31 December 2006 the Group held a 1.40% and 1.05% interests in the share capitals of OAO WGC-2, OAO WGC-5, respectively.

The fair value of the majority of the Group's equity instruments was determined on the basis of market quotations.

Movements in long-term available-for-sale assets	For the Year ended 31 December 2007	For the Year ended 31 December 2006
Balance at the beginning of the year	150,874	67,847
Net effect of adjustments to fair value	21,201	73,854
Available-for-sale assets purchased	90,199	9,218
Available-for-sale assets disposed	(13,850)	(1,916)
Provision accrued on available-for-sale assets	(364)	(93)
Provision reversed due to disposal of long-term available-for-sale assets (sold/written-off)	8,150	1,964
Balance at the end of the year	256,210	150,874

The maximum exposure to credit risk at the reporting date is the fair value of the debt securities classified as available-for-sale.

None of the financial assets that are fully performing have been renegotiated in the reporting period.

15 OTHER NON-CURRENT ASSETS

Included within other non-current assets is VAT recoverable related to long-term assets totalling RR 24,135 and RR 19,530 as of 31 December 2007 and 2006, respectively.

16 ACCOUNTS PAYABLE AND ACCRUED CHARGES

	31 December 2007	31 December 2006
Financial liabilities		
Trade payables	144,532	117,332
Accounts payable for acquisition of property, plant and equipment	82,890	59,824
Liabilities of OAO Gazprombank	195,227	151,842
Other payables	49,970	59,248
	472,619	388,246
Non-financial liabilities		
Advances received	10,009	7,240
Accruals and deferred income	2,838	2,640
	12,847	9,880
	485,466	398,126

(In millions of Russian Roubles)

16 ACCOUNTS PAYABLE AND ACCRUED CHARGES (continued)

Liabilities of OAO Gazprombank represent amounts due to the banks' customers with terms at commercial rates ranging from 0.9% to 8.0% per annum and from 0.8% to 7.8% per annum as of 31 December 2007 and 2006, respectively.

For the years ended 31 December 2007 and 2006 approximately 8% and 13% of the Group's settlements of accounts payable and accrued charges were made via non-cash settlements.

RR 41,243 and RR 42,662 of trade payables are denominated in foreign currency, mainly the US dollar and Euro, as of 31 December 2007 and 2006, respectively. Book values of accounts payable approximate their fair value.

17 OTHER TAXES PAYABLE

	31 December 2007	31 December 2006
VAT	17,000	21,311
Natural resources production tax	16,595	13,388
Excise tax	3,626	3,361
Property tax	5,258	4,349
Tax penalties and interest	1,955	2,429
Other taxes	6,274	5,407
	50,708	50,245
Less: long-term portion of restructured tax liabilities	(178)	(822)
Total	50,530	49,423

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

	31 December 2007	31 December 2006
Short-term borrowings:		
RR denominated borrowings	129,331	101,314
Foreign currency denominated borrowings	100,596	51,737
	229,927	153,051
Current portion of long-term borrowings (see Note 19)	274,143	137,654
	504,070	290,705

Short-term RR denominated borrowings had average interest rates ranging from 7.0% to 10.5% and from 7.4% to 13% for the years ended 31 December 2007 and 2006, respectively. Short-term foreign currency denominated borrowings had average interest rates ranging from 4.4% to 8.9% and from 2.4% to 8.9% for the years ended 31 December 2007 and 2006, respectively.

As of 31 December 2007 and 2006, respectively, short-term borrowings include RR 176,716 and RR 133,493 of short-term borrowings of OAO Gazprombank.

The Group's short-term promissory notes payable had average interest rates ranging from 5.7% to 7.2% and from 6.8% to 9.0% for the years ended 31 December 2007 and 2006, respectively.

Fair values approximate the carrying value of these liabilities.

(In millions of Russian Roubles)

19 LONG-TERM BORROWINGS AND PROMISSORY NOTES

	Currency	Final Maturity	31 December 2007	31 December 2006
Long-term borrowings payable to:				
Calyon Credit Agricole CIB*	US dollar	2010	54,289	-
ABN AMRO*	US dollar	2012	49,614	-
ABN AMRO	US dollar	2013	44,334	47,558
Loan participation notes issued in October 2007**	Euro	2018	43,651	-
Citibank International PLC*	US dollar	2008	43,051	-
Credit Swiss International	US dollar	2009	40,250	-
Loan participation notes issued in June 2007**	GBP	2013	39,435	-
Loan participation notes issued in May 2005**	Euro	2015	37,165	35,886
Loan participation notes issued in September 2003**	Euro	2010	36,668	35,408
Loan participation notes issued in December 2005**	Euro	2012	36,033	34,793
Loan participation notes issued in November 2006**	US dollar	2016	33,360	35,786
Loan participation notes issued in March 2007**	US dollar	2022	32,568	-
Loan participation notes issued in August 2007**	US dollar	2037	31,521	-
Loan participation notes issued April 2004**	US dollar	2034	29,900	32,074
Deutsche Bank AG	US dollar	2014	29,618	31,776
Loan participation notes issued in October 2006**	Euro	2014	29,225	27,317
Structured export notes issued in July 2004***	US dollar	2020	28,645	33,901
Loan participation notes issued in June 2007**	Euro	2014	25,382	-
Eurobonds issued in September 2005******	US dollar	2015	24,768	26,557
ABN AMRO*	US dollar	2010	24,429	35,765
Dresdner Bank AG*	US dollar	2010	23,283	33,143
Loan participation notes issued in November 2006**	Euro	2017	18,685	17,443
Eurobonds issued in October 2003******	US dollar	2008	18,607	19,927
Loan participation notes issued in March 2007**	Euro	2017	18,127	-
Salomon Brothers AG	US dollar	2009	17,524	18,798
Eurobonds issued in April 2007******	US dollar	2010	17,145	-
Dresdner Bank AG*	US dollar	2008	15,516	33,135
Credit Swiss International	Euro	2009	14,467	13,969
Salomon Brothers AG	US dollar	2009	12,903	15,921
Credit Swiss International	US dollar	2017	12,877	-
Depfa Bank*	US dollar	2008	12,590	13,502
Sumitomo Mitsui Banking Corporation Europe Limited*	US dollar	2008	12,326	13,179

(In millions of Russian Roubles)

19 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

	Currency	Final Maturity	31 December 2007	31 December 2006
Credit Swiss International	US dollar	2009	12,292	-
Credit Swiss International	US dollar	2008	12,041	-
JP Morgan Chase bank	Rouble	2010	11,833	-
Citibank International PLC	US dollar	2009	10,908	16,646
Eurobonds issued in February 2007******	Rouble	2010	10,219	-
OOO Aragon	Euro	2010	9,882	9,541
Credit Swiss International	Euro	2010	9,036	8,720
Deutsche Bank AG	US dollar	2011	8,718	9,358
Eurobonds issued in January 2004******	US dollar	2008	7,443	7,971
Credit Swiss International	Euro	2008	7,279	7,009
Credit Swiss International	Euro	2008	7,246	6,996
Wintershall Holding AG****	Rouble	2015	6,975	-
Loan participation notes issued in November 2007**	JPY	2012	6,457	-
ABN AMRO*	US dollar	2008	5,674	-
Gazstream S.A.	US dollar	2010	5,673	7,050
Russian bonds issued in February 2005	Rouble	2010	5,155	5,134
Russian bonds issued in August 2005	Rouble	2009	5,137	5,134
Russian bonds issued in February 2007	Rouble	2014	5,130	-
Russian bonds issued in March 2006*****	Rouble	2016	5,129	-
Russian bonds issued in September 2006*****	Rouble	2011	5,107	-
Liberty Hampshire Corporation	Rouble	2009	5,067	7,600
Russian bonds issued in November 2006	Rouble	2011	5,058	5,057
Russian bonds issued in November 2006	Rouble	2009	5,056	5,040
J.P. Morgan Chase bank	US dollar	2011	4,942	5,302
Credit Swiss International	US dollar	2009	4,931	5,293
BNP Paribas SA	US dollar	2008	4,913	5,271
Gazstream S.A.	US dollar	2012	4,768	7,248
ABN AMRO*	US dollar	2009	4,450	5,355
Loan participation notes issued in November 2007**	JPY	2010	4,303	-
ABN AMRO	US dollar	2009	4,105	6,609
Wintershall Holding AG****	Euro	2010	4,063	-
Mannesmann (Deutsche Bank AG)*	Euro	2008	3,011	5,814
Wintershall Holding AG****	Rouble	2013	3,000	-
Deutsche Bank AG	US dollar	2009	1,672	2,988
Salomon Brothers AG	US dollar	2007	-	13,386
Salomon Brothers AG	US dollar	2007	-	11,876
Russian bonds issued in February 2004	Rouble	2007	-	10,359
Russian bonds issued in October 2004	Rouble	2007	-	5,084
International banking consortium	Euro	2007	-	1,735
Other long-term borrowings	Various	Various	130,922	62,583
Total long-term borrowings			1,255,551	805,997
Less: current portion of long-term borrowings			(274,143)	(137,654)
			981,408	668,343

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

** Issuer of these bonds is Gaz Capital S.A.

*** Issuer of these notes is Gazprom International S.A.

**** Loans were obtained for development of Yuzhno-Russkoye oil and gas field.

***** Issuer of these bonds is OAO Mosenergo.

****** Issuer of these bonds is OAO Gazprombank.

(In millions of Russian Roubles)

19 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

	31 December 2007	31 December 2006
RR denominated borrowings (including current portion of RR 29,373 and RR 18,447 as of 31 December 2007 and 2006, respectively)	165,146	60,753
Foreign currency denominated borrowings (including current portion of RR 244,770 and RR 119,207 as of 31 December 2007 and 2006, respectively)	1,090,405	745,244
	1,255,551	805,997

Due for repayment:	31 December 2007	31 December 2006
Between one and two years	188,171	111,280
Between two and five years	277,673	242,230
After five years	515,564	314,833
	981,408	668,343

Long-term borrowings include fixed rate loans with a carrying value of RR 869,194 and RR 563,142 and fair value of RR 871,253 and RR 592,833 as of 31 December 2007 and 2006, 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 2007 and 2006, long-term borrowings of OAO Gazprombank are equal to RR 162,259 and RR 84,628, including current portion of RR 20,611 and nil, respectively.

As of 31 December 2007 and 2006, 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 2007	31 December 2006
Fixed rate RR denominated long-term borrowings	7.29%	7.17%
Fixed rate foreign currency denominated long-term borrowings	5.96%	6.85%
Variable rate foreign currency denominated long-term borrowings	6.34%	6.60%

As of 31 December 2007 and 2006 long-term borrowings of RR 28,645 and RR 33,901, 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 (see Note 23).

The Group's long-term promissory notes payable had average interest rates ranging from 6.9% to 8.3% and from 8.0% to 8.1% for the years ended 31 December 2007 and 2006, respectively.

20 PROFIT TAX

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

Notes		Year ended 31 December 2007	Year ended 31 December 2006
	Profit before profit tax	924,204	856,065
	Theoretical tax charge calculated at applicable tax rates	(223,422)	(205,456)
	Tax effect of items which are not deductible or assessable for taxation purposes:		
	Non-deductible expenses	(48,019)	(22,319)
12	Non-taxable income from sale of subsidiary	13,818	-
35	Non-taxable income from call option fair value change	12,177	-
32	Non-taxable income from Gazfund deconsolidation	10,726	-
	Other non-taxable income	5,501	8,171
	Profit tax expense	(229,219)	(219,604)

(In millions of Russian Roubles)

20 PROFIT TAX (continued)

Profit tax expense in the consolidated statement of income is stated net of RR 221 and RR 3,077 of tax attributable to gains arising on treasury shares transactions for the years ended 31 December 2007 and 2006, 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%.

	31 December 2007	Differences recognition and reversals	31 December 2006	Differences recognition and reversals	31 December 2005
Tax effects of taxable temporary differences:					
Property, plant and equipment	(266,965)	(25,226)	(241,739)	(6,620)	(235,119)
Financial assets	(41,160)	(3,048)	(38,112)	(17,370)	(20,742)
Inventories	(4,001)	(3,812)	(189)	2,778	(2,967)
	(312,126)	**(32,086)**	**(280,040)**	**(21,212)**	**(258,828)**
Tax effects of deductible temporary differences:					
Tax losses carry forward	977	(729)	1,706	(1,123)	2,829
Other deductible temporary differences	2,796	(30)	2,826	(1,305)	4,131
Total net deferred tax liabilities	**(308,353)**	**(32,845)**	**(275,508)**	**(23,640)**	**(251,868)**

Taxable temporary differences recognized in 2007 include the effect of the acquisition of the controlling interest in OAO Mosenergo (see Note 33). The differences attributable to property, plant and equipment amounted to RR 18,367.

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 3,554 and RR 17,725 for the years ended 31 December 2007 and 2006, respectively. No current profit tax was paid on this revaluation.

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 2007 and 2006 deferred tax assets in the amount of RR 17,583 and RR 14,053, 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 403,468 and RR 313,678 as of 31 December 2007 and 2006, respectively. A deferred tax liability on these temporary differences was not recognized because management controls the timing of the earnings distribution, and accordingly, the reversal of the temporary differences and believes that they will not reverse in the foreseeable future.

(In millions of Russian Roubles)

21 FINANCIAL INSTRUMENTS

As of 31 December 2007 the Group had outstanding commodity contracts and contracts to purchase and sell securities, and foreign currencies at the market price at the date of maturity. The Group expects to settle these contracts in the normal course of business. These instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions.

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

	31 December 2007		31 December 2006	
	Notional principal equivalents	**Fair value**	**Notional principal equivalents**	**Fair value**
Foreign exchange option contracts				
Call options held – foreign	-	-	4,871	499
Put options held – foreign	-	-	-	-
Call options written – foreign	(6,251)	(557)	(1,021)	(24)
Put options written – foreign	(553)	(1)	(983)	-
	(6,804)	**(558)**	**2,867**	**475**
Foreign exchange forward contracts				
Assets foreign	160,193	5,176	77,494	2,139
Assets domestic	75,799	1,864	41,616	593
Liabilities foreign	(86,984)	(1,231)	(47,603)	(432)
Liabilities domestic	(90,803)	(1,507)	(44,936)	(353)
	58,205	**4,302**	**26,571**	**1,947**
Securities option contracts				
Call options written – foreign	-	-	(22,310)	(2,851)
Call options held – foreign	-	-	5,867	332
Put options written – foreign	(40,967)	(4,666)	-	-
	(40,967)	**(4,666)**	**(16,443)**	**(2,519)**
Securities forward contracts				
Assets – foreign	3,008	2	-	-
Assets – domestic	3,976	101	917	1
Liabilities – foreign	(1,473)	(373)	-	-
Liabilities – domestic	(3,443)	(11)	(649)	(4)
	2,068	**(281)**	**268**	**(3)**
Swap contracts				
Currency swap contracts (assets) – foreign	5,063	199	-	-
Interest swap contracts (liabilities) – foreign	(12,528)	-	-	-
	(7,465)	**199**	**-**	**-**
Commodity contracts				
Commodity contracts assets	103,119	16,265	89,273	18,776
Commodity contracts liabilities	(150,161)	(19,813)	(93,504)	(17,261)
	(47,042)	**(3,548)**	**(4,231)**	**1,515**

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.

(In millions of Russian Roubles)

22 PROVISIONS FOR LIABILITIES AND CHARGES

		31 December	
		2007	**2006**
37	Provision for environmental liabilities	51,604	31,670
	Provision for pension obligations	20,738	84,393
	Other	6,871	3,515
		79,213	119,578

The Group operates a defined benefit plan, concerning the majority employees of the Group. These benefits include pension benefits provided by the non-governmental pension fund, NPF Gazfund and certain post-retirement benefits, from the Group at their retirement date.

Principal actuarial assumptions used:

	31 December	
	2007	**2006**
Discount rate (nominal)	6.6%	6.7%
Future salary and pension increases (nominal)	6.8%	7.6%
Turnover ratio p.a.	5%	5%
Employees average remaining working life (years)	15	15

The assumptions relating to longevity at normal pension age were 17 years for a 60 year old man and 28 years for a 55 year old woman in 2007 and 2006.

The company expects a 5% return on the plan assets as at 31 December 2007 and 2006.

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

	31 December	
	2007	**2006**
Present value of funded obligations	(207,880)	(193,352)
Fair value of plan assets	583,221	-
	375,341	(193,352)
Present value of unfunded obligations	(52,336)	(44,129)
Unrecognized net actuarial losses	151,341	126,577
Unrecognized past service costs	24,744	26,511
Unrecognized plan assets above the limit	(255,108)	-
Net pension asset / (liability)	243,982	(84,393)

The net pension assets related to benefits provided by the pension plan NPF Gazfund are presented within other non-current assets in the consolidated balance sheet (see Note 32).

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

	Year ended 31 December	
	2007	**2006**
Current service cost	10,829	7,945
Interest on obligation	15,475	12,634
Expected return on plan assets	(22,131)	-
Net actuarial losses recognized in year	6,855	5,617
Past service cost	1,767	2,891
Effect of asset restriction	23,435	-
Total operating expenses included in staff costs	36,230	29,087

The total amount of benefits paid for 2007 and 2006 were equal to RR 3,524 and RR 2,427, respectively.

(In millions of Russian Roubles)

22 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Change in the present value of the defined benefit obligations are the follows:

	31 December 2007		31 December 2006	
	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits
Opening defined benefit obligation	193,352	44,130	155,048	35,387
Service cost	7,704	3,125	5,644	2,301
Interest cost	12,580	2,895	10,270	2,364
Actuarial (gains)/losses	(2,490)	2,444	24,074	4,210
Benefits paid	(3,266)	(258)	(1,684)	(132)
Closing defined benefit obligation	207,880	52,336	193,352	44,130

Changes in the plan assets are as follows:

	31 December 2007	
	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits
Opening fair value of plan assets	-	-
Recognition of olan assets as at 31 March 2007	590,156	-
Expected return	22,131	-
Actuarial gains/(losses)	(33,514)	-
Contributions by employer	7,714	258
Benefits paid	(3,266)	(258)
Closing fair value of plan assets	**583,221**	-

The major categories of plan assets as a percentage of total plan assets are as follows:

	31 December 2007
Equities	79%
Other assets	21%
Total	**100%**

For the nine months ended 31 December 2007 actual return on plan assets was a loss of RR 11,383, caused by the change of the fair value of plan assets.

Funded status of the plan:

	31 December	
	2007	2006
Defined benefit obligation	(260,216)	(237,481)
Plan assets	583,221	-
Surplus/(deficit)	323,005	(237,481)

For 2007 year unrecognized decrease in plan assets amounted to RR 33,514, and unrecognized increase in liabilities amounted to RR 43,259.

23 EQUITY

Share capital

Share capital authorised, issued and paid in totals RR 325,194 as of 31 December 2007 and 2006 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 roubles.

Dividends

In 2007, OAO Gazprom accrued and paid dividends in the nominal amount of 2.54 roubles per share for the year ended 31 December 2006. 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 2008, the Board of Directors of OAO Gazprom recommended payment of a final dividend for the year ended 31 December 2007 in the amount of 2.66 roubles per share. Because this decision was reached after the balance sheet date and is subject for approval at the General Meeting of the Shareholders, the final dividend proposed in respect of 2007 has not been recognised in the consolidated balance sheet. The final dividend of RR 62,967 (including dividend tax withheld at source in the amount of RR 6,813), if approved, will be paid prior to 31 December 2008.

Treasury shares

As of 31 December 2007 and 2006, subsidiaries of OAO Gazprom held 66 million and 749 million of the ordinary shares of OAO Gazprom, respectively. Shares of the Group held by the subsidiaries represent 0.3% and 3.4% of OAO Gazprom shares as of 31 December 2007 and 2006, respectively. The Group management controls the voting rights of these shares.

In addition, treasury shares as of 31 December 2007 include 50 million of Gazprom shares recognized under a put option written by the Group in June 2006 with a strike price of USD 16.38 per share. The option expires in May 2009. Financial liabilities recognized under this put option amounted to RR 18,234 as of 31 December 2007 and are included in "Other non-current liabilities" in the consolidated balance sheet.

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 "Financial Reporting in Hyperinflation Economies". 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 25,325 and RR 20,496 as of 31 December 2007 and 2006, 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 3,897 and RR 14,562 have been transferred to governmental authorities during the years ended 31 December 2007 and 2006, 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 of the Group parent company, as calculated in accordance with RAR. For 2007 year, the statutory profit of the parent company was RR 360,450. 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 profits and reserves in these consolidated financial statements.

(In millions of Russian Roubles)

24 SALES

	Year ended 31 December	
	2007	2006
Gas sales (including excise tax and custom duties, net of VAT) to customers in:		
Russian Federation	399,452	357,274
Former Soviet Union (excluding Russian Federation)	273,550	243,133
Far Abroad	1,161,549	1,149,582
Gross sales of gas	1,834,551	1,749,989
Excise tax	(96)	(2,637)
Customs duties	(306,752)	(335,733)
Net sales of gas	1,527,703	1,411,619
Sales of refined products to customers in:		
Russian Federation	268,278	233,044
Former Soviet Union (excluding Russian Federation)	42,181	29,776
Far Abroad	181,979	172,165
Total sales of refined products	492,438	434,985
Sales of crude oil and gas condensate to customers in:		
Russian Federation	31,024	26,737
Former Soviet Union (excluding Russian Federation)	19,586	19,213
Far Abroad	117,148	125,759
Sales of crude oil and gas condensate	167,758	171,709
Gas transportation sales		
Russian Federation	41,252	34,468
Former Soviet Union (excluding Russian Federation)	488	32
Far Abroad	-	-
Total gas transportation sales	41,740	34,500
Other revenues		
Russian Federation	134,670	87,797
Former Soviet Union (excluding Russian Federation)	7,794	5,803
Far Abroad	18,364	5,698
Total other revenue	160,828	99,298
Total sales	2,390,467	2,152,111

(In millions of Russian Roubles)

25 OPERATING EXPENSES

	Year ended 31 December 2007	2006
Purchased oil and gas	382,054	280,062
Staff costs	248,894	199,588
Taxes other than on income	196,993	187,245
Depreciation	183,577	167,446
Transit of gas, oil and refined products	152,093	156,489
Repairs and maintenance	118,058	95,190
Materials	94,520	81,810
Cost of goods for resale, including refined products	56,643	51,041
Electricity and heating expenses	44,901	42,559
Social expenses	16,343	18,563
Research and development	15,486	13,123
Rental expenses	13,568	8,890
Insurance expenses	12,950	10,448
Processing services	10,090	8,363
Impairment provisions	7,708	14,384
Transportation services	6,675	6,130
Other operating expenses	128,136	22,592
Total operating expenses	1,688,689	1,363,923

Staff costs include RR 36,230 and RR 29,087 of expenses associated with pension obligations (see Note 22) for the years ended 31 December 2007 and 2006, respectively.

Gas purchase expenses included within purchased oil and gas amounted to RR 299,465 and RR 202,975 for the years ended 31 December 2007 and 2006, respectively.

Taxes other than on income consist of:

	Year ended 31 December 2007	2006
Natural resources production tax	165,097	158,480
Property tax	21,638	21,825
Other taxes	10,258	6,940
	196,993	187,245

26 FINANCE INCOME AND EXPENSE

	Year ended 31 December 2007	2006
Exchange gains	82,936	60,497
Interest income	75,394	36,460
Gains on and extinguishment of restructured liabilities	1,050	966
Total finance income	159,380	97,923

	Year ended 31 December 2007	2006
Exchange losses	55,598	21,449
Interest expense	76,975	43,771
Total finance expenses	132,573	65,220

(In millions of Russian Roubles)

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 2007	2006
RAR net profit for the period per consolidated statutory accounts	543,800	578,688
Effects of IFRS adjustments:		
Gain on NPF Gazfund deconsolidation	44,692	-
Reclassification of revaluation of RAO UES of Russia (including deferred tax effect of RR 3,554 and RR 17,725, respectively)	(18,168)	(56,129)
Elimination of gain of OAO Novatek shares revaluation	(9,553)	(34,984)
Differences in depreciation	78,564	72,167
Reversal of goodwill depreciation	25,347	25,069
Loan interest capitalized	19,661	17,275
Impairment provisions and other provisions	(39,668)	16,431
Fair value adjustment for currency options	(1,320)	1,459
Write-off of research and development expenses capitalized for RAR purposes	(3,402)	(3,438)
Fair value adjustment on commodity contracts	(2,534)	4,169
Gain from change in fair value of call option	50,738	-
Other effects	6,828	15,754
IFRS profit for the period	694,985	636,461

28 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF OAO GAZPROM

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 23.4 billion and 22.8 billion weighted average shares outstanding for the years ended 31 December 2007 and 2006, respectively.

There are no dilutive financial instruments outstanding.

(In millions of Russian Roubles)

29 NET CASH PROVIDED BY OPERATING ACTIVITIES

	Year ended 31 December 2007	Year ended 31 December 2006
Profit before profit tax	924,204	856,065
Adjustments to profit before profit tax		
Depreciation	183,577	167,446
Charge for impairment provisions and other provisions	43,938	43,471
Net unrealised foreign exchange gains	(27,338)	(39,048)
Interest expense	76,975	43,771
Gains on and extinguishment of restructured liabilities	(1,050)	(966)
Losses on disposal of property, plant and equipment	9,988	11,744
Interest income	(75,394)	(36,460)
Gain on disposal of available-for-sale financial assets	(25,102)	(8,811)
Share of net income from associated undertakings and jointly controlled entities	(24,234)	(26,363)
Total effect of adjustments	161,360	154,784
Increase in long-term assets	(62,042)	(39,758)
Decrease (increase) in long-term liabilities	987	(501)
Gain from sale of interest in subsidiary	(50,853)	-
Gain from change in fair value of call option	(50,738)	-
Non-cash additions and disposals of property, plant and equipment and other long-term financial assets	(116,450)	(55,371)
Deconsolidation of NPF Gazfund	(44,692)	-
	761,776	915,219
Changes in working capital		
Increase in accounts receivable and prepayments	(21,463)	(257,763)
Increase in inventories	(27,277)	(43,600)
Decrease (increase) in other current assets	2,227	(7,205)
Increase in accounts payable and accrued charges, excluding interest, dividends and capital construction	69,161	128,514
Increase in taxes payable (other than profit tax)	66,873	11,812
Decrease (increase) in available-for-sale financial assets and financial assets held for trading	(58,752)	8,290
Total effect of working capital changes	30,769	(159,952)
Profit tax paid	(194,037)	(211,179)
Net cash provided by operating activities	**598,508**	**544,088**

Total taxes paid in cash for the years 2007 and 2006:

	Year ended 31 December 2007	Year ended 31 December 2006
Customs duties	429,991	473,088
Profit tax	194,037	211,179
Natural resources production tax	163,596	157,834
VAT	68,988	74,398
Excise	23,573	35,948
Unified social tax	31,546	27,846
Personal income tax	26,693	22,155
Property tax	23,801	20,670
Other	18,005	4,024
Total taxes paid	**980,230**	**1,027,142**

(In millions of Russian Roubles)

30 SUBSIDIARY UNDERTAKINGS

Principal subsidiaries

Subsidiary undertaking	Location	% of share capital as of 31 December* 2007	2006
ZAO ArmRosgazprom	Armenia	53	53
OOO Arsenal***	Russia	100	-
OOO Aura-Media	Russia	100	100
OAO Azot (Kemerovo)**	Russia	75	75
Benton Solutions Inc.	Virgin Islands	100	-
OOO Burgaz	Russia	100	100
Dolby International Holdings Ltd****	Virgin Islands	100	100
Ecofran Marketing Consulting and Communications Services Company Ltd	Cyprus	100	-
OOO Elion	Russia	100	100
OOO Faktoring-Finance	Russia	90	90
Ferenco Investment Ltd****	Cyprus	100	100
OOO Gazflot	Russia	100	100
OOO Gazkomplektimpex	Russia	100	100
OOO Gazoenergeticheskaya Companiya	Russia	100	100
OOO Aviapredpriyatie Gazpromavia	Russia	100	100
OAO Gazprombank	Russia	46	100
OOO Gazpromenergo	Russia	100	100
OOO Gazprom dobycha Astrakhan (OOO Astrakhangazprom)	Russia	100	100
OOO Gazprom dobycha Nadym (OOO Nadymgazprom)	Russia	100	100
OOO Gazprom dobycha Noyabrsk (OOO Noyabrskgazodobycha)	Russia	100	100
OOO Gazprom dobycha Orenburg (OOO Orenburggazprom)	Russia	100	100
OOO Gazprom dobycha Urengoy (OOO Urengoygazprom)	Russia	100	100
OOO Gazprom dobycha Yamburg (OOO Yamburggazdobycha)	Russia	100	100
OOO Gazprom export	Russia	100	100
Gazprom Finance B.V.	Netherlands	100	100
GAZPROM Germania GmbH	Germany	100	100
OOO Gazprominvestholding	Russia	100	100
Gazprom Libyen Verwaltung GmbH	Germany	100	-
Gazprom Marketing and Trading Ltd.	United Kingdom	100	100
OAO Gazprom-Media	Russia	100	100
OOO Gazprom-Media Holding	Russia	100	-
OAO Gazprom Neft	Russia	76	76
OOO Gazpromneftfinans****	Russia	100	100
OOO Gazpromneft-Khantos****	Russia	100	100
Gazprom Neft Trade GmbH****	Austria	100	100
OOO Gazpromneft-Vostok****	Russia	100	100
Gazprom Netherlands B.V.	Netherlands	100	-

(In millions of Russian Roubles)

30 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Location	% of share capital as of 31 December* 2007	2006
Gazprom Oil and Gas Germany GmbH	Germany	100	-
OOO Gazprom Pererabotka	Russia	100	-
OOO Gazprom PKhG	Russia	100	-
OOO GazpromPurInvest	Russia	100	100
OAO Gazpromregiongaz	Russia	100	100
Gazprom Sakhalin Holding B.V.	Netherlands	100	-
ZAO Gazpromstroyengineering	Russia	100	100
OOO Gazpromtrans	Russia	100	100
OOO Gazprom transgas Ekaterinburg (OOO Uraltransgaz)	Russia	100	100
OOO Gazprom transgas Kazan (OOO Tattransgaz)	Russia	100	100
OOO Gazprom transgas-Kuban	Russia	100	-
OOO Gazprom transgas Makhachkala (OOO Kaspygazprom)	Russia	100	100
OOO Gazprom transgas Moskva (OOO Mostransgaz)	Russia	100	100
OOO Gazprom transgas Nizhny Novgorod (OOO Volgotransgaz)	Russia	100	100
OOO Gazprom transgas Samara (OOO Samaratransgaz)	Russia	100	100
OOO Gazprom transgas Saratov (OOO Yugtransgaz)	Russia	100	100
OOO Gazrpom transgas St. Petersburg (OOO Lentransgaz)	Russia	100	100
OOO Gazprom transgas Surgut (OOO Surgutgazprom)	Russia	100	100
OOO Gazprom transgas Tchaikovsky (OOO Permtransgaz)	Russia	100	100
OOO Gazprom transgas Tomsk (OOO Tomsktransgaz)	Russia	100	100
OOO Gazprom transgas Ufa (OOO Bashtransgaz)	Russia	100	100
OOO Gazprom transgas Ukhta (OOO Severgazprom)	Russia	100	100
OOO Gazprom transgas Volgograd (OOO Volgogradtransgaz)	Russia	100	100
OOO Gazprom transgas Yugorsk (OOO Tyumentransgaz)	Russia	100	100
OAO Gazpromtrubinvest	Russia	99	99
ZAO Gazprom YuRGM Trading	Russia	100	-
OOO Gaztorgpromstroy	Russia	100	100
ZAO Gerosgaz	Russia	51	51
OOO Gazprombank-Invest***	Russia	99	99
AB GPB-Ipoteka (ZAO)***	Russia	99	99
OOO Jester***	Russia	100	19
Jones Resources Ltd	Virgin Islands	100	100
ZAO Kaunasskaya power station	Lithuania	99	99

(In millions of Russian Roubles)

30 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Location	% of share capital as of 31 December* 2007	2006
OOO Kavkaztransgaz	Russia	100	100
OOO Kommerts Investments***	Russia	100	100
OAO Krasnodargazstroy	Russia	51	51
OOO Krasnoyarsgazdobycha	Russia	100	100
OAO Krasnoyarskgazprom	Russia	75	75
OOO Kubangazprom	Russia	100	100
ZAO Kuzbassnefteproduct****	Russia	100	100
Leadville Investments Ltd.	Cyprus	100	100
OAO Lengazspecstroy	Russia	63	63
OOO Mezhregiongaz	Russia	100	100
OAO Mineralnie udobreniya**	Russia	51	-
OAO Mosenergo	Russia	53	20
ZAO Neftehim-Invest**	Russia	100	100
OOO NK Sibneft-Yugra****	Russia	99	99
OOO Novourengoysky GCC	Russia	100	100
OAO NTV-PLUS	Russia	100	78
ZAO Purgaz	Russia	51	51
OOO Regionalnaya finansovaya companiya***	Russia	100	100
OAO Regiongazholding	Russia	56	56
Richard Enterprises S.A.****	Virgin Islands	100	100
ZAO Rosshelf	Russia	57	57
ZAO RSh-Centre	Russia	99	99
OAO Severneftegazprom	Russia	75	100
OOO Sevmorneftegaz	Russia	100	100
OOO Sibirskaya metanolnaya khimicheskaya companiya**	Russia	100	100
OOO Sibneft-AZS Service****	Russia	100	100
OOO Sibneft-Chukotka****	Russia	100	100
OAO Sibneft-Noyabrskneftegaz****	Russia	100	100
OAO Sibneft-Omskiy NPZ****	Russia	100	100
OAO Sibneft-Omsknefteproduct****	Russia	100	100
ZAO Sibneft-Severo-Zapad****	Russia	100	100
Sib Oil Trade Ltd****	Virgin Islands	100	100
OAO AK Sibur**	Russia	100	99
OAO Sibur Holding**	Russia	74	100
OAO Sibur-Mineralnie udobrenia**	Russia	100	100
ZAO Sibur-Motors**	Russia	100	100
OAO Sibur-Neftekhim**	Russia	100	100
OAO Sibur-Russkiye shiny**	Russia	100	100
OAO Sibur-Tyumen**	Russia	100	100
OAO SiburTyumenGaz**	Russia	100	100
ZAO Speccisterni**	Russia	100	100
OAO Spetsgazavtotrans	Russia	51	51
ZAO Stimul	Russia	100	100
OAO Tomskgazprom	Russia	100	100
OOO Tomskneftekhim**	Russia	100	100
OAO Tsentrenergogaz	Russia	62	62
OAO Tsentrgaz	Russia	100	99
OAO Telekompaniya NTV	Russia	100	100
OOO VNIIGAZ	Russia	100	100

(In millions of Russian Roubles)

30 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Location	% of share capital as of 31 December* 2007	2006
OAO Vostokgazprom	Russia	99	99
ZAO Yamalgazinvest	Russia	100	100
OAO Yaroslavsky shinniy zavod**	Russia	88	88
OOO Yugragazpererabotka**	Russia	51	100
OAO Zapsibgazprom	Russia	77	77
Zarubezhgaz Management und BeteiligungsGesellschaft mbH (ZMB Gmbh)	Germany	100	100
OAO Zavod Benzol**	Russia	100	100
OOO Zapolyarneft****	Russia	100	100
ZGG Cayman Holding Ltd	Cayman Islands	100	100
ZGG Cayman Ltd	Cayman Islands	100	100
ZMB (Schweiz) AG	Switzerland	100	100

* Cumulative share of Group companies in charter capital of investments
** Subsidiaries of Sibur-Holding
*** Subsidiaries of OAO Gazprombank
**** Subsidiaries of OAO Gazprom neft

The effect of NPF Gazfund's deconsolidation is disclosed in Note 32.

(In millions of Russian Roubles)

31 MINORITY INTEREST

	Year ended 31 December 2007	2006
Minority interest at the beginning of the year	161,362	142,317
Minority interest share of net profit of subsidiary undertakings	36,947	23,116
Dividends	(9,320)	(9,110)
Minority interest as a result of acquisitions	173,319	5,039
Minority interest at the end of the year	362,308	161,362

32 EFFECT OF THE DECONSOLIDATION OF NPF GAZFUND

In 1994, Gazprom founded the Non-State pension fund NPF Gazfund. Historically, Gazprom consolidated Gazfund primarily due to the fact that Gazprom management exhibited control over the financial and investment decisions of Gazfund. Gazprom used Gazfund as the Group's primary investment vehicle for purchasing strategic investments and Gazfund did not have any other significant operations or investments.

During the first quarter of 2007, there were changes in legislation relating to pension funds, specifically Regulation No. 63 dated 1 February 2007, which introduced stringent requirements on pension fund's investment policies and on the composition of investment portfolios. After evaluating and assessing the specific provisions of the new legal requirements, executive management met in March 2007 and decided to discontinue the use of Gazfund as the Group's primary investment vehicle.

Based on the new legislation and management's decisions, NPF Gazfund was deconsolidated from the consolidated financial information of OAO Gazprom in first quarter 2007. As a result of this deconsolidation, the Gazfund investment assets are now accounted for as plan assets on the OAO Gazprom consolidated balance sheet under IAS 19. The principal balance sheet line items affected are short-term financial assets, other non-current assets, provisions for liabilities and charges, minority interest and equity including treasury shares. In addition, where NPF Gazfund continues to hold ownership interests in OAO Gazprom subsidiaries (for example, OAO Gazprombank, OAO Sibur-Holding and their subsidiaries), those interests are reflected as Minority Interest in the accompanying financial information.

In accordance with IAS 19, pension assets are required to be recorded at estimated fair market values subject to certain limitations. In accordance with these requirements the Company recorded a net pension asset of approximately RR 266 billion and RR 244 billion at 31 March and 31 December 2007, respectively. The pension assets comprise shares of OAO Gazprom, shares of OAO Gazprombank and other assets of NPF Gazfund.

Although the fair value of these assets could vary within a reasonable supportable range due to the underlying assumptions used, at 31 March and 31 December 2007 management estimated the fair value of these assets at approximately RR 590 billion and RR 583 billion, respectively.

The net pension asset recognized was limited to RR 266 billion by the application of IAS 19 and IFRIC 14. As at 31 December 2007 net pension assets approximated to RR 244 billion (see Note 22). This limitation reflected the cumulative unrecognized net actuarial losses and the present value of economic benefits available to Gazprom in the form of reductions in future contributions to the plan. The fair values of the pension plan assets were estimated based on common valuation techniques which included specific market quotes and comparable third party transactions.

(In millions of Russian Roubles)

32 EFFECT OF THE DECONSOLIDATION OF NPF GAZFUND (continued)

The deconsolidation of NPF Gazfund had the following line item effect(s) on the accompanying consolidated financial statements of the Group at the moment of NPF Gazfund's deconsolidation:

	Description	Increase/ (decrease)
IFRS consolidated balance sheet		
Other non-current assets	Recognition of pension assets	265,715
Provisions for liabilities and charges	Elimination of previously recorded defined benefit liabilities	(76,166)
Treasury shares	Disposal of OAO Gazprom shares held by Gazfund	8,838
Retained earnings and other reserves	Excess of fair market value over cost basis of OAO Gazprom shares held by Gazfund	111,015
Short-term financial assets	Elimination of previously consolidated amounts	(46,340)
Cash and cash equivalents	Elimination of previously consolidated amounts	(18,518)
Accounts receivable and prepayments	Elimination of previously consolidated amounts	(7,098)
Other current assets	Elimination of previously consolidated amounts	(6,640)
Investments in associated undertakings and jointly controlled entities	Elimination of previously consolidated amounts	(7,896)
Retained earnings and other reserves	Gain on deconsolidation	44,692
Minority interest	Recognition of minority interest in Group subsidiaries held by Gazfund	90,844
IFRS consolidated statement of income		
Deconsolidation of NPF Gazfund	Gain on deconsolidation	44,692
IFRS consolidated statement of changes in equity		
Deconsolidation of NPF Gazfund	Cost of OAO Gazprom shares held by Gazfund	8,838
	Excess of fair market value over cost basis of OAO Gazprom shares held by Gazfund	111,015
	Recognition of minority interest in Group subsidiaries held by Gazfund	90,844
IFRS consolidated statement of cash flows		
Decrease in cash due to NPF Gazfund deconsolidation	Decrease in cash due to NPF Gazfund deconsolidation	(18,518)

33 ACQUISITION OF THE CONTROLLING INTEREST IN OAO MOSENERGO

In May 2007, following an additional share issue by OAO Mosenergo, the Group increased its interest in the new share capital of OAO Mosenergo to a controlling interest of 50.95% for cash consideration of RR 66,163.

In accordance with IFRS 3 "Business Combinations", the Group recognized the acquired assets and liabilities based upon their fair values. In the interim condensed financial information, management made a preliminary assessment on a provisional basis. The final analysis of fair values of aquired assets and liabilities was completed prior to finalising these financial statements.

(In millions of Russian Roubles)

33 ACQUISITION OF THE CONTROLLING INTEREST IN OAO MOSENERGO (continued)

Details of the assets and liabilities acquired are as follows:

	Attributed fair value
Cash and cash equivalents	65,700
Accounts receivable and prepayments	5,606
Inventories	4,369
Other current assets	612
Current assets	**76,287**
Property, plant and equipment	107,858
Long-term accounts receivable and prepayments	7,599
Other non-current assets	637
Non-current assets	**116,094**
Total assets	**192,381**
Accounts payable and accrued charges	20,320
Short-term borrowings and current portion of long-term borrowings	7,563
Current liabilities	**27,883**
Long-term borrowings	10,159
Deferred tax liabilities	17,932
Other non-current liabilities	1,219
Non-current liabilities	**29,310**
Equity	**135,188**
Fair value of net assets of OAO Mosenergo at acquisition date	**135,188**
Fair value of the Group's additional interest in OAO Mosenergo	40,286
Purchase price	66,163
Goodwill as of acquisition date	**25,877**

In the second half of 2007 the Group increased its share in Mosenergo to 53.47%. There was no material goodwill related to this additional acquisition.

Following the acquisition, the Group consolidated cash and cash equivalents of OAO Mosenergo of RR 65,700. The net cash outflow on acquisition of OAO Mosenergo of RR 463 is presented in line "Other" within the investing activities in the consolidated statement of cash flows.

OAO Mosenergo contributed revenue of RR 37,770 and profit of RR 1,334 to the Group for the period from the date of acquisition to 31 December 2007. If the acquisition had occurred on 1 January 2007, the Group's revenue for the year ended 31 December 2007 would have been RR 2,414,861. The Group's profit for the year ended 31 December 2007 would have been RR 694,483.

The recognized goodwill mainly represents future synergies which are expected primarily from optimizing the fuel consumption structure of OAO Mosenergo.

34 ACQUISITION OF INTEREST IN SAKHALIN ENERGY INVESTMENT COMPANY LTD.

In April 2007, the Group acquired 50% plus one share of Sakhalin Energy Investment Company Ltd. (Sakhalin Energy), which is the operator of the Sakhalin-2 project, for RR 192,330 (USD 7,450 million) paid in cash. The Sakhalin-2 project involves the off-shore development and production of crude oil, natural gas and liquefied natural gas from the Piltun-Astokhskoye and Lunskoye fields.

As of the date of acquisition, Gazprom holds 50% plus one share, Shell - 27.5% minus one share, Mitsui - 12.5% and Mitsubishi 10%. Under the new shareholding structure, the Group acquired the ability to exercise significant influence over Sakhalin Energy and recorded this acquisition within investments in associated undertakings and jointly controlled entities. The purchase consideration approximated the fair value of the acquired share in Sakhalin Energy at the date of acquisition.

34 ACQUISITION OF INTEREST IN SAKHALIN ENERGY INVESTMENT COMPANY LTD. (continued)

Subsequent to the acquisition, the Group invested RR 44,999 (USD 1,779 million) into Sakhalin Energy. The Group's share of the net income of Sakhalin Energy in the period from the date of acquisition through 31 December 2007 was RR 669 (USD 26 million). As of 31 December 2007, the carrying value of the Group's investment in Sakhalin Energy is RR 239,606 (USD 9,255 million).

35 CALL OPTION AGREEMENTS WITH ENI S.P.A.

In April 2007, ENI S.p.A. (Eni) offered the Group an option to acquire its 20% interest in OAO Gazprom Neft by April 2009, at a price of USD 3.7 billion plus certain financial expenses. At 31 December 2007, the fair value of the call option was estimated at RR 50,738. In accordance with IAS 39, the related financial asset is recorded within other non-current assets in the consolidated balance sheet and was recognized as income in the consolidated statement of income. As of the date of the consolidated financial statements, management has not exercised its option.

In addition, Eni offered to the Group an option to acquire 51% interest in OAO Arctic Gas Co, ZAO Urengoil Inc and OAO Neftegaztechnologia by April 2009. In the event that the Group exercises its call option, the assets will be operated through a joint venture between Eni and the Group. There is no material value associated with this instrument.

36 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 2007 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.

As of 31 December 2007 38.373% of OAO Gazprom issued shares were directly owned by the Government. Another 11.63% were owned by Government controlled entities. The Government does not prepare financial statements for public use. Following the General Meeting of Shareholders in June 2007, 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.

(In millions of Russian Roubles)

36 RELATED PARTIES (continued)

As of and for the year ended 31 December 2007 and 2006, 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 2007		For the year ended 31 December 2007	
		Assets	Liabilities	Revenues	Expenses
	Transactions and balances with the Government				
	Current profit tax	9,378	23,033	-	218,266
	Unified social tax	583	1,319	-	31,206
	VAT recoverable/payable	190,560	17,000	-	-
	Custom duties	20,323	-	-	-
25	Other taxes	4,311	32,389	-	196,993
	Transactions and balances with other parties under control of the Government				
	Gas sales	-	-	186,705	-
	Electricity sales	-	-	22,296	-
	Other sales	-	-	975	
	Accounts receivable	44,373	-	-	-
25	Electricity and heating expenses	-	-	-	44,901
	Oil transportation expenses	-	-	-	44,542
	Accounts payable	-	21,328	-	-
	Loans	-	28,007	-	-
	Interest income/expense	-	-	1,262	1,413
	Short-term financial assets	15,030	-	-	-
	Investments in associated undertakings and jointly controlled entities	-	-	-	89
	Available-for-sale long-term financial assets	159,211	-	-	-

Note		As of 31 December 2006		For the year ended 31 December 2006	
		Assets	Liabilities	Revenues	Expenses
	Transactions and balances with the Government				
	Current profit tax	15,488	18,957	-	213,844
	Unified social tax	359	1,015	-	27,918
	VAT recoverable/payable	180,851	21,311	-	-
	Custom duties	23,339	-	-	-
25	Other taxes	9,293	27,919	-	187,245
	Transactions and balances with other parties under control of the Government				
	Gas sales	-	-	169,812	-
	Accounts receivable/payable	81,610	4,250	-	-
25	Electricity and heating expenses	-	-	-	42,559
	Oil transportation expenses	-	-	-	43,672
	Loans	-	32,107	-	-
	Interest income/expense	-	-	3,982	1,006
	Short-term financial assets	28,762	-	1,694	-
	Investments in associated undertakings and jointly controlled entities	34,828	-	5,377	-
	Available-for-sale long-term financial assets	128,599	-	-	-

Gas sales and respective accounts receivable, electricity and heating expenses, oil transportation 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

(In millions of Russian Roubles)

36 RELATED PARTIES (continued)

years ended 31 December 2007 and 2006. See Note 11 for net book values as of 31 December 2007 and 2006 of social assets vested to the Group at privatisation.

See Note 37 for financial guarantees issued by the Group on behalf of subsidiaries and jointly controlled companies.

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 1,697 and RR 1,173 for the years ended 31 December 2007 and 2006, 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 payment from the Group at their retirement date. The employees of the majority of Group companies are eligible for such benefits.

Associated undertakings and jointly controlled entities

For the years ended 31 December 2007 and 2006 the Group had the following significant transactions with associated undertakings and jointly controlled companies:

	For the Year ended 31 December	
	2007	2006
Gas sales	**Revenues**	**Revenues**
RosUkrEnergo AG	157,438	157,450
Wintershall Erdgas Handelshaus GmbH & Co.KG	67,656	64,492
ZAO Panrusgaz	43,179	40,954
WINGAS GmbH	41,251	36,829
OAO Mosenergo*	19,566	28,044
Wintershall Erdgas Handelshaus Zug AG	19,031	21,888
AO Gazum	17,001	17,635
Promgaz SPA	8,003	8,960
GWH – Gaz und Warenhandels GmbH	6,082	8,923
AO Moldovagaz	6,509	4,913
Gas transportation sales		
RosUkrEnergo AG	11,278	11,881
OAO Novatek	8,248	-
Purchased gas	**Expenses**	**Expenses**
RosUkrEnergo AG	29,880	16,863
TOO KazRosGaz	13,246	9,179
OAO Novatek	3,953	-
Gas transportation purchases		
SGT EuRoPol GAZ	11,081	10,843
Construction services purchases		
OAO Stroytransgaz	6,297	30,530

* OAO Mosenergo is consolidated effectively since May 2007 (see Note 33).

In 2007 certain gas sales and purchases transactions were agreed with RosUkrEnergo AG. These transactions were treated as an additional investment in RosUkrEnergo AG in the amount of RR 14,891.

(In millions of Russian Roubles)

36 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 RosUkrEnergo AG) under long-term contracts based on world commodity prices.

As of 31 December 2007 and 2006 the Group had the following significant balances with associated undertakings:

	As of 31 December 2007		As of 31 December 2006	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and Prepayments				
RosUkrEnergo AG	57,446	-	62,702	-
WINGAS GmbH	14,833	-	16,141	-
ZAO Panrusgaz	6,583	-	7,363	-
AO Gazum	2,868	-	2,073	-
AO Moldovagaz*	1,260	-	1,847	-
Wintershall Erdgas Handelshaus GmbH & Co.KG, Berlin	4,078	-	6,665	-
Wintershall Erdgas Handelshaus Zug AG	12,439	-	14,714	-
SGT EuRoPol GAZ S.A.	1,105		1,119	
OAO Novatek	243	-	180	-
OAO Mosenergo	-	-	501	-
Long-term accounts receivable and prepayments				
RosUkrEnergo AG	6,947	-	14,903	-
WINGAS GmbH	10,163	-	13,282	-
SGT EuRoPol GAZ S.A.	3,955	-	4,900	-
Short-term accounts payable				
RosUkrEnergo AG	-	2,001	-	16,904
WINGAS GmbH	-	3,245	-	1,608
SGT EuRoPol GAZ S.A.	-	2,456	-	1,518
TOO KazRosGaz	-	1,787	-	750
OAO Novatek	-	375	-	313
Short-term accounts receivable and payable for construction services				
OAO Stroytransgaz	1,141	2,322	712	8,128

* Net of impairment provision on accounts receivable in the amount of RR 27,821 and RR 22,484 as of 31 December 2007 and 2006, respectively.

Investments in associated undertakings and jointly controlled entities are disclosed in Note 12. In 2007 the interest in OAO Tomskneft (see Note 12) and interest in OAO Mosenergo (see Note 33) were acquired from entities controlled by the Government.

Information on guarantees issued on behalf of Blue Stream Pipeline Company B.V. (BSPC) and Gaztranzit is disclosed in Note 37.

37 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.

(In millions of Russian Roubles)

37 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS (continued)

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.

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 2007 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 mainly in the northern regions of Russian Federation, including contributions toward the construction, development and maintenance of housing, hospitals, transport services, recreation and other social needs.

Financial guarantees

	31 December	
	2007	**2006**
Outstanding guarantees issued on behalf of:		
BSPC	24,352	30,150
ZAO Achimgaz	4,591	-
Gazprom Libya B.V.	4,467	-
Gaztransit	1,346	1,940
ZAO Investment Technologies	-	6,005
Other	59,484	12,770
	94,240	50,865

Historically counterparties fulfilled their contractual obligations. The maximum exposure to credit risk in relation to financial guarantees is RR 94,240 and RR 50,865 as of 31 December 2007 and 2006, respectively

Included in financial guarantees are amounts denominated in USD of USD 1,348 million and USD 1,511 million as of 31 December 2007 and 31 December 2006, respectively.

37 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 2007 and 2006, outstanding amounts of these loans were RR 23,652 (USD 964 million) and RR 29,386 (USD 1,116 million), respectively, which were guaranteed by the Group, pursuant to its obligations.

As of 31 December 2007 and 2006, BSPC also borrowed RR 700 (USD 29 million) and RR 764 (USD 29 million) of credit facilities, provided by Depfa bank, which were guaranteed by the Group.

In November 2006, the Group provided a guarantee to Lascer Limited on behalf of ZAO Investment Technologies with respect to its purchase of OAO Salavatnefteorgsyntez shares. As of 31 December 2007 and 2006, the outstanding amounts were nil and RR 6,005 (USD 228 million), respectively.

In April 2007, the Group provided a guarantee to The National Oil Corporation of Libya under a production sharing agreement on behalf of Gazprom Libya B.V. As of 31 December 2007, the outstanding amount was RR 4,467 (USD 182 million).

In 2007 the Group provided a guarantee to Wintershall Vermogens-Verwaltungsgesellschaft mbH on behalf of ZAO Achimgaz as a security of loans received and used for additional financing of the pilot implementation of the project on the development of Achimsky Deposits of the Urengoy field. The Group's liability with respect to loans is limited by 50% in accordance with the ownership interest in ZAO Achimgaz. As of 31 December 2007 the above guarantee amounted to RR 4,591 (Euro 128 million).

Other guarantees primarily relate to those issued by OAO Gazprombank to third parties in the amount of RR 54,122 and RR 7,461 as of 31 December 2007 and 2006, respectively. In January 2007, OAO Gazprombank provided guarantees to OAO Sberbank on behalf of OAO Sibneftegaz. As of 31 December 2007 outstanding amount of these guarantees was RR 5,934.

In August 2007, OAO Gazprombank provided a guarantee to OAO LUKOIL-Nizhegorodnefteorgsintez on behalf of OAO Lukoil-NORSI-Invest. As of 31 December 2007, the outstanding amount was RR 5,308.

In 2007, OAO Gazprombank provided a guarantee to former owners of OAO Salavatnefteorgsyntez shares on behalf of ZAO Lider with respect to its purchase of interest in OAO Salavatnefteorgsyntez. As of 31 December 2007, the total outstanding amount was RR 16,525.

Other guarantees

As of 31 December 2007 and 2006 the Group's banking subsidiaries and NPF Gazfund pledged nil and RR 229, respectively, of corporate bonds included in assets held for trading (see Note 8), and nil and RR 33,951, respectively, of treasury shares (see Note 23) under repurchase agreements.

As of 31 December 2006, the Group pledged RR 9,410 (USD 358 million) of US T-bills which are included in short-term available-for-sale financial assets (see Note 8) as a guarantee of the loan received from Dresdner Bank AG. During the first quarter of 2007, the loan was fully paid.

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 2008 including capital expenditure budget of about RR 479 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 2007 no loss is expected to result from these long-term commitments.

Loan commitments

As of 31 December 2007 and 2006 the Group's banking subsidiary OAO Gazprombank had undrawn loan commitments related to credit facilities issued to external customers in amounts of RR 98,253 and RR 52,824, respectively.

(In millions of Russian Roubles)

38 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. 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.

Market risk

Market risk is a risk that changes in market prices, such as foreign currency exchange rates, interest rates, commodity prices and prices of marketable securities, will affect the Group's financial results or the value of its holdings of financial instruments.

(a) 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. Foreign exchange risk arises from assets and liabilities denominated in foreign currencies.

The carrying amounts of the Group's financial instruments are denominated in the following currencies:

Notes		Russian Rouble	US dollar	Euro	Other	Total
	As of 31 December 2007					
	Financial assets					
	Current					
	Cash and cash equivalents	161,507	63,892	46,147	7,563	279,109
	Short-term financial assets	111,103	1,790	199	819	113,911
9	Trade and other accounts receivable	365,938	124,598	76,817	10,002	577,355
	Non-current					
13	Long-term accounts receivable and prepayments	253,951	14,490	1,989	-	270,430
	Available for sale long-term financial assets	246,828	6,000	1,853	1,529	256,210
	Total financial assets	**1,139,327**	**210,770**	**127,005**	**19,913**	**1,497,015**
	Financial liabilities					
	Current					
16	Accounts payable and accrued charges	378,802	44,857	34,668	14,292	472,619
	Short-term borrowings and current portion of long-term borrowings	158,704	313,520	30,460	1,386	504,070
	Short-term promissory notes payable	21,455	-	-	-	21,455
	Non-current					
	Long-term borrowings	135,773	563,070	282,565	-	981,408
	Long-term promissory notes payable	3,555	-	-	-	3,555
	Total financial liabilities	**698,289**	**921,447**	**347,693**	**15,678**	**1,983,107**

(In millions of Russian Roubles)

38 FINANCIAL RISK FACTORS (continued)

Notes		Russian Rouble	US dollar	Euro	Other	Total
	As of 31 December 2006					
	Financial assets					
	Current					
	Cash and cash equivalents	168,373	80,659	11,919	8,273	269,224
	Short-term financial assets	101,049	4,336	48	1,141	106,574
9	Trade and other accounts receivable	348,209	124,202	66,279	9,291	547,981
	Non-current					
13	Long-term accounts receivable and prepayments	162,684	26,929	2,203	-	191,816
	Available for sale long-term financial assets	146,181	3,585	554	554	150,874
	Total financial assets	**926,496**	**239,717**	**81,003**	**19,259**	**1,266,469**
	Financial liabilities					
	Current					
16	Accounts payable and accrued charges	267,797	64,382	35,432	20,635	388,246
	Short-term borrowings and current portion of long-term borrowings	119,761	152,441	18,075	428	290,705
	Short-term promissory notes payable	102,859	-	-	-	102,859
	Non-current					
	Long-term borrowings	42,306	430,181	194,118	1,738	668,343
	Long-term promissory notes payable	17,186	-	-	-	17,186
	Total financial liabilities	**549,909**	**647,004**	**247,625**	**22,801**	**1,467,339**

Historically, the management of the Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in selected foreign currencies.

At 31 December 2007 and 2006, if the Russian Rouble had weakened by 10% against the US dollar with all other variables held constant, profit before tax for these years would have been lower by RR 71 668 and RR 41,088, respectively, mainly as a result of foreign exchange gains on translation of US dollar-denominated trade receivables and foreign exchange losses on translation of US dollar-denominated borrowings. Profit is more sensitive to movement in RR/US dollar exchange rates in 2007 than in 2006 because of the increased amount of the US dollar denominated borrowings. The effect of a corresponding 10% strengthening of the Russian Rouble against the US dollar is approximately equal and opposite.

At 31 December 2007 and 2006, if the Russian Rouble had weakened by 5% against Euro with all other variables held constant, profit before tax for these years would have been lower by RR 11,127 and RR 8,359, respectively, mainly as a result of foreign exchange gains on translation of euro-denominated trade receivables and foreign exchange losses on translation of euro-denominated borrowings. The effect of a corresponding 5% strengthening of the Russian Rouble against Euro is approximately equal and opposite.

(In millions of Russian Roubles)

38 FINANCIAL RISK FACTORS (continued)

(b) Cash flow and fair value interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group's interest rate risk primarily arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The table below summarises the balance between long-term borrowings at fixed and at variable interest rates:

Long-term borrowings	**31 December**	
	2007	**2006**
At fixed rate	869,194	563,142
At variable rate	386,357	242,855
Total	**1,255,551**	**805,997**

The Group does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether obtaining financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

During 2007 and 2006, the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

At 31 December 2007 and 2006, if interest rates on US dollar and Euro denominated borrowings at these dates had been 1.0% higher with all other variables held constant, profit before tax for these years would have been lower by RR 3,864 and RR 2,429, respectively, mainly as a result of higher interest expense on floating rate borrowings. The effect of a corresponding 1.0% decrease in interest rate is approximately equal and opposite.

(c) Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for natural gas, crude oil and related products, and their impact on the Group's future performance and results of operations. A decline in the 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.

The Group's overall strategy in production and sales of natural gas, crude oil and related products is centrally managed. Substantially all the Group's natural gas, gas condensate and other hydrocarbon export sales to Far Abroad countries are sold under long-term contracts. Natural gas export prices to Far Abroad countries are based on a formula linked to world oil product prices, which in turn are linked to world crude oil prices.

Management believes it has limited downside commodity price risk and the Group does not use any significant derivative instruments to mitigate the exposure to commodity price risk.

(d) Securities price risk

The Group is exposed to movements in the equity securities prices because of investments held by the Group and classified on the consolidated balance sheet either as available for sale or at fair value through profit or loss.

The table below summarises the impact of increase of the RTS equity index, which affects on the major part of Group's equity securities, on the group's post-tax profit for the year and on equity, if RTS equity index had increased by 40% with all other variables held constant, assuming the Group's equity instruments moved according to the historical correlation with the index (the effect of a corresponding 40% decrease is approximately equal and opposite):

	Year ended 31 December	
	2007	**2006**
Impact on profit before tax for the period	5,447	14,578
Impact on other components of equity	42,786	58,391

The Group's investments in equity securities mainly consist of strategic investments in energy assets.

To manage price risk arising from other investments in equity securities, the Group's banking subsidiaries diversify their investment portfolios.

(In millions of Russian Roubles)

38 FINANCIAL RISK FACTORS (continued)

Credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if counterparty defaults on its contractual obligations. The maximum exposure to credit risk is the value of the assets which might be lost.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

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.

Cash and cash equivalents are deposited only with banks that are considered by the Group at the time of deposit to have a minimal risk of default.

The Group's maximum exposure to credit risk is presented in the table below.

	31 December 2007	31 December 2006
Cash and cash equivalents	279,109	269,224
Debt securities	100,293	70,130
Trade and other accounts receivable	847,784	739,797
Financial guarantees	94,240	50,865
Total maximum exposure to credit risk	**1,321,426**	**1,130,016**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. 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.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
As of 31 December 2007					
Loans and borrowings	312,881	191,189	241,754	356,741	662,374
Trade and other payables	456,855	15,764	-	-	-
As of 31 December 2006					
Loans and borrowings	212,833	77,872	151,427	329,622	428,418
Trade and other payables	368,742	19,504	-	-	-

See discussion of financial instrument derivatives in Note 21.

(In millions of Russian Roubles)

38 FINANCIAL RISK FACTORS (continued)

Capital risk management

Management considers equity and debt to be the principal elements of capital. The Group's objectives when managing capital are to safeguard the Group's position as a leading global energy company by further increasing the reliability of natural gas supplies and diversifying activities in the energy sector, both in the domestic and foreign markets.

In order to maintain or adjust the capital structure, the Group may revise its investment program, attract new or repay existing loans and borrowings, sell certain non-core assets.

On the Group level capital is monitored on the basis of the net debt to adjusted EBITDA ratio. This ratio is calculated as net debt divided by adjusted EBITDA. Net debt is calculated as total debt (short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities) less cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations.

Adjusted EBITDA is calculated as operating profit less depreciation and less provision for impairment of assets (excluding provisions of accounts receivable and prepayments).

The net debt to adjusted EBITDA ratios at 31 December 2007 and 2006 were as follows:

	31 December	
	2007	**2006**
Total debt	1,510,666	1,079,915
Less: cash and cash equivalents and certain restricted cash	(282,083)	(272,101)
Net debt	1,228,583	807,814
Adjusted EBITDA	891,715	964,128
Net debt/Adjusted EBITDA ratio	**1.38**	**0.84**

The increase in the net debt/adjusted EBITDA is attributable to the increase in Group's borrowings. Management believes that the Group is able to generate sufficient cash flows to meet its debt obligations.

OAO Gazprom presently has an investment grade credit ratings of BBB (stable outlook) by Standard & Poor's, A3 (stable outlook) by Moody's Investor Services, and BBB (stable outlook) by Fitch. To maintain the credit ratings, management of the Group is enhancing efficiency of its business activities by internal restructuring and managerial improvement.

39 POST BALANCE SHEET EVENTS

Agreement on OAO Sibur Holding

In April 2008 OAO Gazprombank has agreed to transfer 50% plus one share interest in OAO Sibur Holding in connection with a proposed management buyout for a total consideration of RR 53,500. RR 16,600 will be received in cash at the date of sale; the rest of the proceeds will be due in several installments with the contractual maturities from 3 months to 3 years. All amounts receivable will be interest-bearing.

Investments

In January 2008, the Group purchased 12.5% interest in OAO Beltransgas for amount of USD 625 million. As a result the Group increased its interest in OAO Beltransgas up to 25%.

In February 2008, the Group purchased 28.7% interest in TGC-1 for amount of RR 39,219 from RAO UES of Russia in accordance with share purchase agreement.

Loans and borrowings

In January 2008, the Group received a loan from ABN AMRO for acquisition of OAO WGC-6 shares in amount of USD 900 million at LIBOR + 2.0% and due in July, 2008.

In January 2008, the Group received a term loan from Credit Suisse International in amount of USD 1,635 million due in 2018 at 5.25% interest rate for refinancing loan received in September, 2007.

In March 2008, the Group received a dual tranche long term loan from a syndicate of banks in amount of USD 450 million. The facility consists of the two following tranches: USD 150 million tranche due in March, 2009 at LIBOR + 0.45% interest rate and USD 300 million tranche due in March, 2011 at LIBOR + 0.65% interest rate.

In April 2008, the Group issued USD 400 million Loan Participation Notes due in 2013 at an interest rate of 7.343% and USD 1,100 million Loan Participation Notes due in 2018 at an interest rate of 8.146% under the USD 30,000 million Programme for the Issuance of Loan Participation Notes.

Officially registered office of OAO Gazprom:

OAO Gazprom
Nametkina str., 16
V-420, GSP-7, 117997, Moscow
Russia

Telephone: (7 495) 719 3001
Facsimile: (7 495) 719 8333, 719 8335
www.gazprom.ru (in Russian)
www.gazprom.com (in English)