OAO GAZPROM
IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2004

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

To the Shareholders of OAO Gazprom

1. We have audited the accompanying consolidated balance sheet of OAO Gazprom and its subsidiaries (the "Group") as of 31 December 2004 and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the year then ended. These financial statements as set out on pages 3 to 46 are the responsibility of the Group's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.
4. Without qualifying our opinion, we draw your attention to Notes 30 and 31 to the consolidated financial statements. The Government of the Russian Federation is the principal shareholder of the Group and governmental economic and social policies affect the Group's financial position, results of operations and cash flows.
5. Also, without qualifying our opinion, we draw your attention to Note 33 to the consolidated financial statements. In June 2005, OAO Gazprom's Board of Directors approved the sale of 10.7399% of treasury shares held by the Group's subsidiaries to OAO Rosneftegaz, a company 100% owned by the Government of the Russian Federation, and the underlying agreements have been signed by the parties. The result of this transaction will be to give the Government a controlling interest of over 50% in OAO Gazprom.

Moscow, Russian Federation
29 June 2005

OAO GAZPROM
IFRS CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2004
(In millions of Russian Roubles)

Notes		31 December 2004	31 December 2003
	Assets		
	Current assets		
6	Cash and cash equivalents	106,157	71,396
6	Restricted cash	16,861	33,743
7	Short-term investments	40,428	57,069
8	Accounts receivable and prepayments	316,709	234,929
9	Inventories	130,400	111,330
	VAT recoverable	94,863	85,909
	Other current assets	21,262	6,086
		726,680	600,462
	Non-current assets		
10	Property, plant and equipment	2,183,084	1,973,781
5,11,30	Investments in associated undertakings	81,783	58,939
12	Long-term accounts receivable and prepayments	146,302	93,769
13	Other non-current assets	67,940	37,136
		2,479,109	2,163,625
5	Total assets	3,205,789	2,764,087
	Liabilities and equity		
	Current liabilities		
14	Accounts payable and accrued charges	174,433	124,273
15	Taxes payable	84,977	103,799
16	Short-term borrowings and current portion of long-term borrowings	156,172	170,622
4	Short-term promissory notes payable	20,845	27,433
		436,427	426,127
	Non-current liabilities		
17	Long-term borrowings	427,086	303,755
4	Long-term promissory notes payable	11,640	13,715
15	Restructured tax liabilities	1,829	6,111
20	Provisions for liabilities and charges	44,275	34,880
18	Deferred tax liabilities	137,062	96,823
	Other non-current liabilities	9,446	12,753
		631,338	468,037
5	Total liabilities	1,067,765	894,164
	Shareholders' equity		
21	Share capital	325,194	325,194
21	Treasury shares	(41,586)	(33,889)
21	Retained earnings and other reserves	1,808,865	1,563,825
	Total shareholders' equity	2,092,473	1,855,130
29	Minority interest	45,551	14,793
	Total liabilities and equity	3,205,789	2,764,087

A.B. Miller
Chairman of the Management Committee
24 June 2005

E.A. Vasilieva
Chief Accountant
24 June 2005

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

OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2004
(In millions of Russian Roubles)

Notes		Year ended 31 December 2004	2003
5, 22	Sales	976,776	819,753
5, 23	Operating expenses	(708,943)	(593,415)
5	**Operating profit**	**267,833**	**226,338**
	Exchange gains	62,932	55,564
	Exchange losses	(47,678)	(40,424)
	Interest income	15,605	15,295
16, 17	Interest expense	(25,165)	(32,301)
15	Gains on and extinguishment of restructured liabilities	4,934	4,007
	Net finance income	10,628	2,141
11	Share of net income of associated undertakings	8,151	3,478
19	Gain on available-for-sale investments	1,253	5,017
	Profit before profit tax and minority interest	**287,865**	**236,974**
18	Current profit tax expense	(57,949)	(42,368)
18	Deferred profit tax expense	(21,939)	(32,449)
18	Profit tax expense	(79,888)	(74,817)
	Profit before minority interest	**207,977**	**162,157**
29	Minority interest	(2,293)	(3,062)
	Net profit	**205,684**	**159,095**
26	**Basic and diluted earnings per share (in Roubles)**	**10.25**	**8.02**

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OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2004
(In millions of Russian Roubles)

Notes		Year ended 31 December 2004	Year ended 31 December 2003
	Operating activities		
27	**Net cash provided by operating activities**	**149,462**	**140,070**
	Investing activities		
	Capital expenditures	(164,981)	(144,370)
	Net change in loans made	2,193	75
	Interest received	14,893	13,177
10	Interest paid and capitalised	(16,373)	(13,807)
8, 28	Acquisition of subsidiaries, net of cash acquired	(45,351)	(671)
28	Disposal of subsidiaries, net of cash disposed	205	-
	Acquisition of associated undertakings	(9,363)	(572)
	Disposal of associated undertakings	3,184	3,056
	Change in long-term available-for-sale investments	(20,517)	(2,406)
	Change in other long-term investments	6,361	2,131
	Net cash used for investing activities	**(229,749)**	**(143,387)**
	Financing activities		
17	Proceeds from long-term borrowings (including current portion)	244,210	144,387
17	Repayment of long-term borrowings (including current portion)	(113,543)	(79,777)
	Net proceeds from issue (redemption) of promissory notes	574	(7,751)
16	Net repayment of short-term borrowings	(6,402)	(13,551)
21	Dividends paid	(14,626)	(8,479)
	Interest paid	(19,456)	(19,204)
21	Purchases of treasury shares	(147,993)	(72,122)
21	Sales of treasury shares	156,788	68,214
6	Change in cash restricted for borrowings	16,882	5,838
	Net cash provided by financing activities	**116,434**	**17,555**
	Effect of exchange rate changes on cash and cash equivalents	(1,386)	(1,196)
	Increase in cash and cash equivalents	**34,761**	**13,042**
	Cash and cash equivalents, at the beginning of reporting period	71,396	58,354
	Cash and cash equivalents, at the end of reporting period	**106,157**	**71,396**

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OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004
(In millions of Russian Roubles)

Notes		Number of shares outstanding (billions)	Share capital	Treasury shares	Retained earnings and other reserves	Total shareholders' equity
	Balance as of 31 December 2002	19.8	325,194	(30,367)	1,417,045	1,711,872
	Net income		-	-	159,095	159,095
21	Net treasury share transactions	(0.0)	-	(3,522)	(347)	(3,869)
21	Translation differences		-	-	1,101	1,101
21	Return of social assets to governmental authorities		-	-	(4,610)	(4,610)
21	Dividends		-	-	(8,459)	(8,459)
	Balance as of 31 December 2003	19.8	325,194	(33,889)	1,563,825	1,855,130
	Net income		-	-	205,684	205,684
21	Revaluation surplus		-	-	37,899	37,899
21	Net treasury share transactions	0.3	-	(7,697)	15,673	7,976
21	Translation differences		-	-	3,089	3,089
21	Return of social assets to governmental authorities		-	-	(2,633)	(2,633)
21	Dividends		-	-	(14,672)	(14,672)
	Balance as of 31 December 2004	20.1	325,194	(41,586)	1,808,865	2,092,473

A.B. Miller
Chairman of the Management Committee
24 June 2005

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24 June 2005

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1 NATURE OF OPERATIONS

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

The Group is involved in the following principal activities:

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

Other activities primarily comprise banking, construction and media. These businesses are not separately reflected in these consolidated financial statements because they do not represent individually material segments.

The weighted average number of full time employees during 2004 and 2003 was 392 thousand and 354 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").

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

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

3 BASIS OF PRESENTATION (continued)

Accounting for the effect of inflation

Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of presentation in accordance with IFRS included the restatement of balances and transactions for the changes in the general purchasing power of the Russian Rouble ("Rouble" or "RR") in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. Therefore, non-monetary assets and liabilities (those balance sheet items that were not expressed in terms of the monetary unit current as of 31 December 2002) and components of shareholders' equity were restated from their historical cost by applying the change in the general price index from the date the non-monetary item originated to 31 December 2002. As the characteristics of the economic environment of the Russian Federation indicated that hyperinflation ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current as of 31 December 2002 were treated as the basis for the carrying amounts in subsequent financial statements.

Reclassifications

Certain reclassifications have been made to prior year balances to conform to the current year presentation. Long-term accounts receivable and prepayments as of 31 December 2003 have been increased by RR 22,813 (see Note 12) as a result of a reclassification of certain long-term amounts due from associated undertakings, previously included within investments in associated undertakings (see Notes 11 and 30).

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Group accounting

Subsidiary undertakings

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

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

Goodwill and minority interest

As of 1 January 2004 the Group early adopted IFRS 3 "Business Combinations" ("IFRS 3"), IAS 36 (revised 2004) "Impairment of Assets" ("IAS 36") and IAS 38 (revised 2004) "Intangible Assets" ("IAS 38") resulting in a change in the accounting policy for goodwill and minority interest.

Until 31 December 2003, goodwill was amortised using the straight-line method over the shorter of its estimated useful life or 20 years, and assessed for an indication of impairment annually. In accordance with the provisions of IFRS 3 the Group ceased amortisation of goodwill from 1 January 2004, and for 2004 and onwards goodwill is tested annually for impairment as well as when there are indications of impairment. The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of IAS 38. No adjustment resulted from this reassessment.

Until 31 December 2003, minority interest at the balance sheet dates represented the minority shareholders' portion of the pre-acquisition carrying amount of the identifiable assets and liabilities of the subsidiary as of the acquisition date, and the minorities' portion of movements in equity since the date of the combination. In accordance with the provisions of IFRS 3, the acquirer recognises the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date, and any minority interest in the acquiree is stated at the minority's proportion of the net fair value of those items. These changes are applied prospectively from 1 January 2004.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 additional minority interest in subsidiaries.

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

Minority interest is presented separately from liabilities and shareholders' equity.

Associated undertakings

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

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

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

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

4.2 Investments

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

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with fixed maturity that the management of the Group companies has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets. There were no such investments as of 31 December 2004 and 2003. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in fair value, are classified as available-for-sale. These are included in non-current assets unless management has the expressed intention of holding the investments for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

4.3 Joint ventures

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

4.4 Cash and cash equivalents

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

4.5 Accounts receivable

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

4.6 Value added tax

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

4.7 Inventories

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

4.8 Property, plant and equipment

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

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

(In millions of Russian Roubles)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

4.9 Impairment of assets

At each balance sheet date, management assesses whether there is any indication that the recoverable value of the Group's assets has declined below the carrying value (see Note 4.1 for impairment of goodwill). When such a decline is identified, the carrying amount is reduced to the estimated recoverable amount. The amount of the reduction is recorded in the consolidated statement of income in the period in which the reduction is identified. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

4.10 Borrowings

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

4.11 Deferred tax

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

4.12 Foreign currency transactions

Monetary assets and liabilities held by the Group as of 31 December 2004 and 2003 and denominated in foreign currencies are translated into Roubles at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised as exchange gains or losses in the consolidated statement of income.

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

The official US dollar to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 27.75 and 29.45 as of 31 December 2004 and 2003, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 37.81 and 36.82 as of 31 December 2004 and 2003, respectively.

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

4.13 Provisions for liabilities and charges

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

4.14 Shareholders' equity

Treasury shares

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

Dividends

Dividends are recognised as a liability and deducted from shareholders' equity when they are declared.

4.15 Revenue recognition

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

4.16 Mutual cancellation and other non-cash transactions

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

Approximately, 14% and 17% of accounts receivable settled during the years ended 31 December 2004 and 2003, respectively, were settled via mutual settlements or other non-cash settlements.

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

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

The Group’s short-term promissory notes payable had average interest rates ranging from 5.0% to 13.0% and from 5.3% to 15.1% for the years ended 31 December 2004 and 2003, respectively. The Group’s long-term promissory notes payable had average interest rates ranging from 7.0% to 14.0% and from 6.3% to 16.3% for the years ended 31 December 2004 and 2003, respectively.

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

4.17 Interest

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

4.18 Research and development

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.19 Employee benefits

Pension and other post-retirement benefits

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

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

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

Social expenses

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

4.20 Financial instruments

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

Accounting for derivative financial instruments

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

Fair value disclosure

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

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

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

(In millions of Russian Roubles)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.21 Recent accounting pronouncements

During the period December 2003 to December 2004, the International Accounting Standards Board ("IASB") revised 17 of its standards and issued 5 new standards. These standards are effective for accounting periods commencing on or after 1 January 2005, except for IFRS 6 "Exploration for and Evaluation of Mineral Resources" ("IFRS 6") effective for periods commencing on or after 1 January 2006, but may be adopted early. The Group has not early adopted these revised and new standards in preparing the consolidated financial statements except for IFRS 3, IAS 36 (revised 2004) and IAS 38 (revised 2004) as described above.

5 SEGMENT INFORMATION

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

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

	Production	Refining	Transport	Distribution	Other	Total
31 December 2004						
Segment assets	886,998	62,535	1,286,395	261,121	404,983	2,902,032
Associated undertakings	-	1,103	33,308	17,839	29,533	81,783
Unallocated assets						343,345
Inter-segment eliminations						(121,371)
Total assets						3,205,789
Segment liabilities	50,412	22,401	97,255	105,867	72,362	348,297
Unallocated liabilities						840,839
Inter-segment eliminations						(121,371)
Total liabilities						1,067,765
Capital additions	167,391	11,831	107,724	9,624	14,409	310,979
Depreciation	33,853	4,962	66,586	766	4,097	110,264
(Reversal of) charge for impairment provisions and other provisions	(4,547)	764	797	(10,215)	(241)	(13,442)
Unallocated impairment provisions and other provisions						(509)
Total impairment provisions and other provisions						(13,951)
31 December 2003						
Segment assets	679,113	61,829	1,243,192	235,522	339,177	2,558,833
Associated undertakings	1,289	1,310	29,913	15,696	10,731	58,939
Unallocated assets						241,150
Inter-segment eliminations						(94,835)
Total assets						2,764,087
Segment liabilities	39,157	28,254	73,308	81,305	32,447	254,471
Unallocated liabilities						734,528
Inter-segment eliminations						(94,835)
Total liabilities						894,164

(In millions of Russian Roubles)

5 SEGMENT INFORMATION (continued)

	Production	Refining	Transport	Distribution	Other	Total
Capital additions	102,778	20,002	83,826	7,987	17,191	231,784
Depreciation	30,486	3,779	60,617	641	4,125	99,648
Charge for (reversal of) impairment provisions and other provisions	9,595	2,633	(4,667)	9,327	8,725	25,613
Unallocated impairment provisions and other provisions						3,213
Total impairment provisions and other provisions						28,826

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

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

	Production	Refining	Transport	Distribution	Other	Total
Year ended 31 December 2004						
Segment revenues						
Inter-segment sales	158,747	4,543	251,972	27,933	3,198	446,393
External sales	2,941	122,248	29,027	764,517	58,043	976,776
Total segment revenues	161,688	126,791	280,999	792,450	61,241	1,423,169
Segment expenses						
Inter-segment expenses	(4,054)	(8,156)	(31,504)	(402,679)	-	(446,393)
External expenses	(144,115)	(92,034)	(221,772)	(180,217)	(59,046)	(697,184)
Total segment expenses	(148,169)	(100,190)	(253,276)	(582,896)	(59,046)	(1,143,577)
Segment result	13,519	26,601	27,723	209,554	2,195	279,592
Unallocated operating expenses						(11,759)
Operating profit						267,833
Share of net income of associated undertakings	-	-	5,003	1,857	1,291	8,151
Year ended 31 December 2003						
Segment revenues						
Inter-segment sales	102,058	4,927	224,459	25,207	5,406	362,057
External sales	4,351	92,180	28,226	646,111	48,885	819,753
Total segment revenues	106,409	97,107	252,685	671,318	54,291	1,181,810
Segment expenses						
Inter-segment expenses	(1,648)	(10,234)	(29,719)	(320,456)	-	(362,057)
External expenses	(97,045)	(79,086)	(189,363)	(159,683)	(55,332)	(580,509)
Total segment expenses	(98,693)	(89,320)	(219,082)	(480,139)	(55,332)	(942,566)
Segment result	7,716	7,787	33,603	191,179	(1,041)	239,244
Unallocated operating expenses						(12,906)
Operating profit						226,338
Share of net income of associated undertakings	-	-	1,983	1,456	39	3,478

(In millions of Russian Roubles)

5 SEGMENT INFORMATION (continued)

The inter-segment revenues mainly consist of:

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

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

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

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

6 CASH AND CASH EQUIVALENTS

Balances included within cash and cash equivalents in the consolidated balance sheet represent cash on hand and balances with banks. Included within restricted cash are balances of cash and cash equivalents totalling RR 11,560 and RR 24,330 as of 31 December 2004 and 31 December 2003, respectively, which are restricted as to withdrawal under the terms of certain borrowings. In addition, restricted cash comprises cash balances of RR 5,301 and RR 9,413 as of 31 December 2004 and 31 December 2003, respectively, in subsidiary banks, which are restricted as to withdrawal under banking regulations.

7 SHORT-TERM INVESTMENTS

	31 December 2004	31 December 2003
Trading investments	24,246	33,956
Available-for-sale investments	16,182	23,113
	40,428	57,069

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

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

8 ACCOUNTS RECEIVABLE AND PREPAYMENTS

Note		31 December 2004	31 December 2003
24	Trade receivables (net of impairment provision of RR 60,658 and RR 94,404 as of 31 December 2004 and 2003, respectively)	135,015	117,868
	Prepayments and advances (net of impairment provision of RR 5,371 and RR 5,110 as of 31 December 2004 and 2003, respectively)	84,488	47,953
	Other receivables (net of impairment provision of RR 28,862 and RR 31,087 as of 31 December 2004 and 2003, respectively)	97,206	69,108
		316,709	234,929

The estimated fair value of accounts receivable, excluding prepayments and advances, is RR 235,426 and RR 178,211 as of 31 December 2004 and 2003, respectively.

(In millions of Russian Roubles)

8 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

RR 99,970 and RR 62,079 of trade receivables, net of impairment provision, are denominated in foreign currencies, mainly US dollar and Euro, as of 31 December 2004 and 2003, respectively.

Included within prepayments and advances as of 31 December 2004 is RR 31,335 of cash paid in December 2004 to acquire the remaining 42% interest in ZAO Sevmorneftegaz (see Notes 28 and 33).

As of 31 December 2004 and 2003 other receivables include RR 73,602 and RR 47,788, respectively, relating to the operations of AB Gazprombank (ZAO). These balances mainly represent deposits with other banks and loans issued to customers at commercial rates based on credit risks and maturities.

As of 31 December 2004 the average year-end interest rate on banking deposits and loans ranged from 8.4% to 15.7% on balances denominated in Russian Roubles and from 1.8% to 11.5% on balances denominated in foreign currencies. As of 31 December 2003 the average year-end interest rate on banking deposits and loans ranged from 10.4% to 15.9% on balances denominated in Russian Roubles and from 1.1% to 11.8% on balances denominated in foreign currencies.

As of 31 December 2004 and 2003, AB Gazprombank (ZAO) had pledged deposits with banks and other financial institutions of RR 1,755 and RR 2,283, respectively. These are pledged as collateral for borrowings received by OAO Gazprom and credit exposures of Altalanos Ertekforgalmi Bank Rt ("AEB").

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

9 INVENTORIES

	31 December	
	2004	**2003**
Gas	69,811	55,483
Materials and supplies (net of an obsolescence provision of RR 5,647 and RR 8,687 as of 31 December 2004 and 2003, respectively)	49,686	41,653
Goods for resale (net of an obsolescence provision of nil and RR 74 as of 31 December 2004 and 2003, respectively)	3,889	8,451
Refined products	7,014	5,743
	130,400	111,330

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

(In millions of Russian Roubles)

10 PROPERTY, PLANT AND EQUIPMENT

	Pipelines	Wells	Machinery and equipment	Buildings and roads	Total operating assets	Social assets	Assets under construction	Total
As of 31.12.02								
Cost	1,330,606	391,513	640,003	730,470	3,092,592	124,654	202,166	3,419,412
Accumulated depreciation	(626,271)	(188,412)	(379,341)	(337,561)	(1,531,585)	(32,551)	-	(1,564,136)
Net book value at **31.12.02**	**704,335**	**203,101**	**260,662**	**392,909**	**1,561,007**	**92,103**	**202,166**	**1,855,276**
Depreciation	(36,947)	(9,614)	(26,005)	(24,202)	(96,768)	(3,449)	-	(100,217)
Additions	186	174	700	570	1,630	134	212,195	213,959
Acquisition of subsidiaries	760	1,460	5,629	6,975	14,824	712	2,289	17,825
Transfers	67,194	22,582	58,890	54,855	203,521	2,431	(205,952)	-
Disposals	(807)	(238)	(2,424)	(1,649)	(5,118)	(5,724)	(4,324)	(15,166)
(Charge for) release of impairment provision	(444)	(304)	(1,060)	(177)	(1,985)	-	4,089	2,104
Net book value at **31.12.03**	**734,277**	**217,161**	**296,392**	**429,281**	**1,677,111**	**86,207**	**210,463**	**1,973,781**
As of 31.12.03								
Cost	1,397,119	415,165	697,960	788,911	3,299,155	120,587	210,463	3,630,205
Accumulated depreciation	(662,842)	(198,004)	(401,568)	(359,630)	(1,622,044)	(34,380)	-	(1,656,424)
Net book value at **31.12.03**	**734,277**	**217,161**	**296,392**	**429,281**	**1,677,111**	**86,207**	**210,463**	**1,973,781**
Depreciation	(38,656)	(10,283)	(29,811)	(26,838)	(105,588)	(3,446)	-	(109,034)
Additions	49	23	1,524	1,023	2,619	879	231,449	234,947
Acquisition of subsidiaries	210	-	3,518	4,791	8,519	-	67,513	76,032
Fair value adjustment on acquisition of interests in subsidiaries	(271)	(520)	(2,905)	(3,937)	(7,633)	(254)	37,303	29,416
Transfers	48,676	24,431	66,187	67,854	207,148	326	(207,474)	-
Disposals	(70)	(236)	(3,156)	(7,030)	(10,492)	(5,704)	(10,703)	(26,899)
Release of impairment provision	-	-	-	-	-	-	4,841	4,841
Net book value at **31.12.04**	**744,215**	**230,576**	**331,749**	**465,144**	**1,771,684**	**78,008**	**333,392**	**2,183,084**
As of 31.12.04								
Cost	1,445,701	438,585	759,735	849,804	3,493,825	113,392	333,392	3,940,609
Accumulated depreciation	(701,486)	(208,009)	(427,986)	(384,660)	(1,722,141)	(35,384)	-	(1,757,525)
Net book value at **31.12.04**	**744,215**	**230,576**	**331,749**	**465,144**	**1,771,684**	**78,008**	**333,392**	**2,183,084**

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 86,640 and RR 91,481 at 31 December 2004 and 2003, respectively. Charges for impairment provision of assets under construction primarily relates to projects that have been indefinitely suspended and currently excluded from the Group's investment program. Releases of the impairment provision of assets under construction primarily relate to projects that were previously frozen but are now included in the Group's investment program.

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

(In millions of Russian Roubles)

10 PROPERTY, PLANT AND EQUIPMENT (continued)

Included in additions above is capitalized interest of RR 16,373 and RR 13,807 for the years ended 31 December 2004 and 2003, respectively. Capitalization rates of 6.2% and 6.8% were used representing the weighted average actual borrowing cost of the relevant borrowings for the years ended 31 December 2004 and 2003, respectively.

Included in the property, plant and equipment above are fully depreciated assets which are still in service with the gross cost of RR 722,018 and RR 687,364 as of 31 December 2004 and 2003, respectively. Included in additions are non-cash additions of RR 46,862 and RR 42,469 for the years ended 31 December 2004 and 2003, respectively.

Depreciation includes RR 1,208 and RR 610 for the years ended 31 December 2004 and 2003, respectively, which is considered a cost of self-constructed assets and thus capitalized rather than expensed in the consolidated statement of income. RR 20,064 and RR 19,304 of depreciation for the years ended 31 December 2004 and 2003, respectively, is capitalized as a component of gas inventories and will be expensed in the consolidated statement of income when the gas is sold.

Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatisation with a net book value of RR 30,935 and RR 35,047 as of 31 December 2004 and 2003, respectively.

The Group's gas fields are operated under licenses granted by federal and local authorities. The licenses for exploration, assessment and production of hydrocarbons for the Group's major fields expire between 2012 and 2025, however they may be extended. Management believes the existing licenses on properties expected to produce hydrocarbons will be extended subsequent to their current expiration dates. The Group management has recently extended the terms of five of the Group's production licenses to the end of the economic lives of the fields. Because of the expected renewals, the assets are depreciated over their useful lives even if this is beyond the end of the current license.

The fair value adjustment on acquisition of subsidiaries includes a RR 7,886 decrease in the net carrying value of the identifiable assets and liabilities of petrochemical companies, in which the Group acquired additional interests in the period from April 2003 to August 2004 (see Note 28).

Assets under construction include RR 37,303 related to the fair value adjustment on licenses held by ZAO Sevmorneftegaz (see Note 28).

11 INVESTMENTS IN ASSOCIATED UNDERTAKINGS

Notes		31 December 2004	31 December 2003
30	SGT EuRoPol GAZ S.A.	32,089	28,681
30	OAO Mosenergo	18,905	-
30	WINGAS GmbH	5,238	5,239
30	OAO Stroytransgaz	3,518	3,488
30	ZAO ArmRosGazprom	3,312	3,170
	AEB	2,220	2,523
	Other (net of provision for impairment of RR 7,366 and RR 8,351 as of 31 December 2004 and 2003, respectively)	16,501	15,838
		81,783	58,939

(In millions of Russian Roubles)

11 INVESTMENTS IN ASSOCIATED UNDERTAKINGS (continued)

	31 December 2004	31 December 2003
Balance at the beginning of the reporting period	58,939	60,082
Share of profit before tax	10,502	5,173
Share of profit tax expense	(2,351)	(1,695)
Share of net income	8,151	3,478
Reduction in loans	(2,588)	(3,289)
Dividends received from associated undertakings	(765)	(1,133)
Translation differences	1,715	(111)
Net acquisitions (disposals)	16,331	(88)
Balance at the end of the reporting period	81,783	58,939

Principal associated undertakings

Associated undertaking	Country	Nature of operations	% of ordinary shares held as of 31 December 2004	2003
ZAO ArmRosGazprom	Armenia	Transportation and sale of gas	45	45
ZAO Agrochemical corporation Azot	Russia	Sale of agricultural chemicals	47	47
WINGAS GmbH	Germany	Transportation and sale of gas	35	35
AEB	Hungary	Banking	26	26
AO Gazum	Finland	Sale of gas	25	25
Gas und Warenhandeslgesellschaft GmbH	Austria	Sale of gas	50	50
Blue Stream Pipeline company B.V.	Netherlands	Construction, gas transportation	50	50
SGT EuRoPol GAZ S.A.	Poland	Transportation and sale of gas	48	48
ZAO KazRosGaz	Kazakhstan	Transportation and sale of gas	50	50
AO Latvias Gase	Latvia	Transportation and sale of gas	25	25
AO Lietuvos Dujos	Lithuania	Transportation and sale of gas	37	-
AO Moldovagaz	Moldova	Transportation and sale of gas	50	50
OAO Mosenergo	Russia	Electric power distribution	25	16
AO Panrusgaz	Hungary	Sale of gas	40	40
Progresgaz Trading Ltd.	Yugoslavia	Sale of gas	25	25
AO Prometheus Gas	Greece	Foreign trade activity	50	50
AO Promgaz	Italy	Sale of gas	50	50
SIA Investments Ltd.	Cyprus	Investments	50	50
AO Slovrusgaz	Slovakia	Sale of gas	50	50
OAO Sogaz	Russia	Insurance	24	99
ZAO Stella Vitae	Lithuania	Transportation and sale of gas	30	30
OAO Stroytransgaz	Russia	Construction	26	26
AO Turusgaz	Turkey	Sale of gas	45	45
AO Fragaz	France	Sale of gas	50	50

In the year ended 31 December 2004 the Group acquired an additional 9.25% interest in OAO Mosenergo for RR 7,455 paid in cash increasing the Group's interest in OAO Mosenergo to 25.01%. As a result of this acquisition the Group obtained significant influence over OAO Mosenergo and the Group's investment in OAO Mosenergo was reclassified from short-term investments to investments in associated undertakings. The fair value of consideration paid approximated the fair value of net assets acquired.

In September 2004 the Group decided to dispose of the 25.5% investment in AEB (Hungary) and initiated negotiations with potential buyers. The execution of the sale needs to be formally approved by the Hungarian banking supervisory authorities and is expected to be completed by November 2005.

(In millions of Russian Roubles)

11 INVESTMENTS IN ASSOCIATED UNDERTAKINGS (continued)

In March 2004 the Group acquired a 34.0% interest in AO Lietuvos Dujos from the State Property Fund of Lithuanian Republic for RR 1,020. In November 2004 the Group acquired 57,949,232 newly issued shares of AO Lietuvos Dujos at their nominal value of 1 Lithuanian Litas per share and thus increased its interest in AO Lietuvos Dujos to 37.1%.

12 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

Note		31 December 2004	31 December 2003
24	Long-term accounts receivable and prepayments (net of impairment provision of RR 19,920 and RR 9,976 as of 31 December 2004 and 2003, respectively)	111,784	71,875
	Advances for assets under construction (net of impairment provision of nil and RR 1,398 as of 31 December 2004 and 2003, respectively)	34,518	21,894
		146,302	93,769

Long-term accounts receivable and prepayments include amounts due from South Pars of RR 12,009 and RR 16,868, net of impairment provision of RR 1,473 and RR 2,038 as of 31 December 2004 and 2003. South Pars is a contractual arrangement with Total South Pars and Parsi International Ltd. established in 1997 to provide services to the National Iranian Oil Company in relation to the development of the South Pars gas and condensate field in Iran.

The estimated fair value of long-term accounts receivable, excluding prepayments, is RR 103,728 and RR 45,156 as of 31 December 2004 and 2003, respectively.

13 OTHER NON-CURRENT ASSETS

	31 December 2004	31 December 2003
VAT related to assets under construction	23,945	17,827
Available-for-sale investments (net of provision for impairment of RR 16,821 and RR 16,266 as of 31 December 2004 and 2003, respectively)	28,710	8,178
Other non-current assets	15,285	11,131
	67,940	37,136

Included in available-for-sale investments is a 5.2% direct interest in RAO UES acquired by the Group in January 2004. As of 31 December 2004 the estimated fair value of this investment was RR 18,553.

14 ACCOUNTS PAYABLE AND ACCRUED CHARGES

	31 December 2004	31 December 2003
Trade payables	53,153	37,157
Accounts payable for acquisition of property, plant and equipment	50,667	36,906
Advances received	3,787	3,862
Accruals and deferred income	1,582	1,550
Other payables	65,244	44,798
	174,433	124,273

Other payables include RR 34,761 and RR 23,121 related to the operations of the Group's banking subsidiaries as of 31 December 2004 and 2003, respectively. These balances mainly represent amounts due to the banks' customers with terms at commercial rates, varying by maturity of deposit, ranging from 0.0% to 6.5% per annum as of 31 December 2004 and from 0.2% to 8.6% per annum as of 31 December 2003.

(In millions of Russian Roubles)

14 ACCOUNTS PAYABLE AND ACCRUED CHARGES (continued)

In the years ended 31 December 2004 and 2003 approximately 18% and 24% of the Group's settlements of accounts payable and accrued charges were settled via non-cash settlements.

RR 13,040 and RR 7,689 of trade payables are denominated in foreign currency, mainly the US dollar and euro, as of 31 December 2004 and 2003, respectively.

15 TAXES PAYABLE

	31 December	
	2004	2003
VAT	48,440	55,340
Profit tax	19,417	3,745
Natural resources production tax	5,702	1,296
Tax penalties and interest	4,619	8,940
Excise tax	3,640	31,086
Royalty and mineral restoration taxes	334	442
Road users tax	34	794
Other taxes	4,620	8,267
	86,806	109,910
Less: long term portion of restructured tax liabilities	(1,829)	(6,111)
	84,977	103,799

Substantially all accrued taxes above that are overdue, except restructured tax liabilities (see below) incur interest at a rate of 1/300 of the refinancing rate of the Central Bank of the Russian Federation per day (13% and 16% per annum as of 31 December 2004 and 2003, respectively). Interest does not accrue on tax penalties and interest.

Included within VAT payable as of 31 December 2004 and 2003 is RR 42,465 and RR 50,928, respectively, of deferred VAT that is only payable to the budget when the underlying receivable is recovered or written off.

The long-term portion of restructured tax liabilities comprises various taxes, penalties and interest payable to the Russian Government which were previously past due and which were restructured in years 2000, 2001 and 2002 following the application of Government Resolution dated 3 September 1999 No.1002. The Group's current restructuring agreements presume payments of outstanding restructured taxes over a period of ten years, in accordance with agreed payment schedules. Failure to pay the restructured taxes as they become due or to settle current tax liabilities would result in reinstatement of the original liability under the restructuring agreements.

The amortization of the discount (representing the difference between the carrying amount of the old payables and the discounted value of the restructured taxes) is recorded within interest expense and amounted to RR 2,101 and RR 2,879 for the years ended 31 December 2004 and 2003, respectively.

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

	31 December	
	2004	2003
Between one and two years	502	1,245
Between two and five years	2,057	8,258
After five years	473	1,877
	3,032	11,380
Less: unamortized discount on restructured taxes	(1,203)	(5,269)
	1,829	6,111

(In millions of Russian Roubles)

15 TAXES PAYABLE (continued)

The total amortised cost of restructured tax liabilities was RR 2,725 and RR 8,075 as of 31 December 2004 and 2003, respectively.

Interest on restructured tax liabilities is accrued quarterly based on outstanding restructured tax liabilities, applying the refinancing rate of the Central Bank of the Russian Federation. RR 425 and RR 2,332 of the restructured tax liabilities as of 31 December 2004 and 2003, respectively, accrue interest at one-tenth of the official rate of the Central Bank of the Russian Federation as of the date of the Government Resolution (5.5% p.a.).

During the years ended 31 December 2004 and 2003, having complied with the terms of the accelerated repayment schedules of such payables provided for by the regulation, some of the Group's subsidiaries became eligible to extinguish a major part of restructured interest and fines related to taxes. The additional gain recorded upon extinguishment of restructured tax interest and fines is recorded in the consolidated statement of income as a part of net finance income in the amount of RR 4,934 and RR 4,007 for the years ended 31 December 2004 and 2003.

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

	31 December	
	2004	**2003**
Short-term borrowings:		
RR denominated borrowings	33,395	25,905
Foreign currency denominated borrowings	35,844	49,950
	69,239	75,855
Current portion of long-term borrowings (see Note 17)	86,933	94,767
	156,172	170,622

Short-term RR denominated borrowings had average interest rates ranging from 6.5% to 7.9% and from 8.8% to 16.5% for the years ended 31 December 2004 and 2003, respectively. Short-term foreign currency denominated borrowings had average interest rates ranging from 3.4% to 9.0% and from 4.3% to 10.8% for the years ended 31 December 2004 and 2003, respectively.

As of 31 December 2004 and 2003, respectively, short-term borrowings include RR 50,875 and RR 39,738 of short-term borrowings of AB Gazprombank (ZAO).

(In millions of Russian Roubles)

17 LONG-TERM BORROWINGS

	Currency	Due	31 December 2004	31 December 2003
Long-term borrowings payable to:				
Morgan Stanley AG	US dollar	2003-2013	50,118	53,199
Loan participation notes issued in September 2003	Euro	2003-2010	38,584	37,593
Structured export notes issued in July 2004	US dollar	2004-2020	35,740	-
Loan participation notes issued in April 2004	US dollar	2004-2034	33,801	-
Deutsche Bank AG	US dollar	2004-2014	33,440	-
ABN AMRO	US dollar	2004-2010	29,886	-
Calyon	US dollar	2004-2010	28,173	-
Eurobonds issued by AB Gazprombank (ZAO) in October 2003	US dollar	2003-2008	20,941	22,185
Salomon Brothers AG	US dollar	2002-2009	19,821	21,039
Depfa Bank	US dollar	2003-2008	14,237	15,116
Salomon Brothers AG	US dollar	2002-2007	14,106	14,974
Mannesmann (Deutsche Bank AG)	Euro	1997-2008	12,670	15,424
ABN AMRO	US dollar	2004-2007	11,218	-
Russian bonds issued in February 2004	RR	2004-2007	10,338	-
Intesa BCI	US dollar	1996-2007	10,030	16,423
Deutsche Bank AG	US dollar	2004-2011	9,815	-
Eurobonds issued by AB Gazprombank (ZAO) in January 2004	US dollar	2004-2008	8,376	-
Mizuho Bank (Fuji Bank)	US dollar	2001-2010	8,224	8,816
Commerzbank AG	US dollar	2003-2009	7,969	2,950
SACE	US dollar	2001-2012	6,992	7,503
International banking consortium	Euro	2003-2007	6,239	7,733
German banking consortium	Euro	1996-2007	6,075	7,889
WestLB AG	US dollar	2003-2005	5,968	6,335
Eurobonds issued by AB Gazprombank (ZAO) in October 2002	Euro	2002-2005	5,739	5,547
Deutsche Bank AG	US dollar	2004-2009	5,630	-
Deutsche Bank AG	US dollar	2003-2006	5,581	8,878
JP Morgan Chase Bank	US dollar	2004-2011	5,578	-
ABN AMRO	US dollar	2004-2008	5,569	-
Credit Suisse First Boston	US dollar	2004-2005	5,567	-
Russian bonds issued in October 2002	RR	2002-2005	5,098	5,071
Russian bonds issued in October 2004	RR	2004-2007	5,083	-
Credit Lyonnais	US dollar	2001-2005	-	32,556
Dresdner Bank AG	US dollar	2001-2005	-	20,070
Bayerische Hypo-und Vereinsbank AG	US dollar	2002-2008	-	18,326
Societe Generale	US dollar	2002-2008	-	9,183
Deutsche Bank AG	US dollar	2002-2004	-	8,870
ABN AMRO	US dollar	2002-2004	-	5,990
Moscow Narodny Bank	US dollar	2001-2006	-	5,215
OAO Vneshtorgbank	US dollar	2001-2004	-	4,720
Bayerische Hypo-und Vereinsbank AG	Euro	2001-2006	-	4,642
OAO Alfa Bank	US dollar	2002-2004	-	4,426
Other long-term borrowings	Various	Various	47,413	27,849
Total long-term borrowings			514,019	398,522
Less: current portion of long-term borrowings			(86,933)	(94,767)
			427,086	303,755

(In millions of Russian Roubles)

17 LONG-TERM BORROWINGS (continued)

	31 December 2004	31 December 2003
RR denominated borrowings (including current portion of RR 8,300 and RR 14,293 as of 31 December 2004 and 2003, respectively)	31,996	34,285
Foreign currency denominated borrowings (including current portion of RR 78,633 and RR 80,474 as of 31 December 2004 and 2003, respectively)	482,023	364,237
	514,019	398,522

Due for repayment:	31 December 2004	31 December 2003
Between one and two years	54,487	68,253
Between two and five years	182,623	109,521
After five years	189,976	125,981
	427,086	303,755

Long-term borrowings include fixed rate loans with a carrying value of RR 323,544 and RR 247,763 and fair value of RR 314,202 and RR 275,788 as of 31 December 2004 and 2003, respectively. All other long-term borrowings have variable interest rates linked to LIBOR, and the carrying amounts approximate fair value.

As of 31 December 2004 and 2003, respectively, long-term borrowings include RR 60,286 and RR 37,025 of long-term borrowings of AB Gazprombank (ZAO).

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

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

	31 December 2004	31 December 2003
Fixed rate RR denominated long-term borrowings	9.86%	15.00%
Fixed rate foreign currency denominated long-term borrowings	7.34%	8.48%
Variable rate foreign currency denominated long-term borrowings	5.05%	4.22%

As of 31 December 2004 and 2003 long-term borrowings of RR 147,634 and RR 154,858, respectively, inclusive of current portion of long-term borrowings, are secured by revenues from export supplies of gas to Europe.

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

As of 31 December 2004 and 2003 long-term bank borrowings included loans from Salomon Brothers AG received in 2002 in connection with the issuance of USD 700 million of Loan Participation Notes due 2009, with an interest rate of 10.5%. The Notes were issued by, but without recourse to, Salomon Brothers AG with the sole purpose of financing a loan to OAO Gazprom. These Loan Participation Notes have a put option exercisable on 21 October 2005 (the holder has the right to demand settlement of the liability in full). The estimated fair value of the put option was RR 271 and RR 1,090 as of 31 December 2004 and 2003.

(In millions of Russian Roubles)

18 PROFIT TAX

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

Note		Year ended 31 December 2004	2003
	Profit before profit tax and minority interest	287,865	236,974
	Theoretical tax charge at a statutory rate (24% for the years ended 31 December 2004 and 2003, respectively)	(69,088)	(56,874)
	Tax effect of items which are not deductible or assessable for taxation purposes:		
	Non-deductible expenses	(23,425)	(23,993)
24	Non-taxable income from settlement of accounts receivable due from NAK Naftogaz Ukraine	6,287	-
	Other non-temporary differences	6,338	6,050
	Profit tax expense	(79,888)	(74,817)

Profit tax expense in the consolidated statement of income is stated net of RR 3,068 and RR 1,085 of tax attributable to gains arising on treasury share transactions for the years ended 31 December 2004 and 2003, 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 2004	Differences recognition and reversals	31 December 2003	Differences recognition and reversals	31 December 2002
Tax effects of taxable temporary differences:					
Property, plant and equipment	(135,170)	(36,417)	(98,753)	(31,748)	(67,005)
Investments	(1,722)	(584)	(1,138)	3,269	(4,407)
Inventories	(2,981)	(33)	(2,948)	(1,093)	(1,855)
	(139,873)	**(37,034)**	**(102,839)**	**(29,572)**	**(73,267)**
Tax effects of deductible temporary differences:					
Tax losses carry forward	774	(3,731)	4,505	(5,743)	10,248
Other deductible temporary differences	2,037	526	1,511	1,511	-
Total net deferred tax liabilities	**(137,062)**	**(40,239)**	**(96,823)**	**(33,804)**	**(63,019)**

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 based upon independent appraisals, the most recent of which was recognised as of 1 January 2001, while the financial reporting base is historical cost restated for changes in the general purchasing power of the RR to 31 December 2002. 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.

Following the enactment of Chapter 25 “Profit tax” of the Russian Federation Tax Code on 1 January 2002, the profit tax regulations allowed for different tax depreciation lives for different groups of property, plant and equipment (RF Government Regulation #1). In accordance with the tax regulations, the Group recognised shorter tax depreciation lives effective from 1 January 2002, resulting in increased tax depreciation and deferred tax liabilities attributable to property, plant and equipment for the periods thereafter.

(In millions of Russian Roubles)

18 PROFIT TAX (continued)

The revised tax depreciation lives also gave rise to current period tax losses in the statutory books of OAO Gazprom in 2002. Statutory entities can carry forward tax losses generated in an individual period for ten years, subject to a maximum utilization of 30% of the total amount of taxable profit each year. This resulted in a recognition of a deferred tax asset of RR 774 and RR 4,505 as of 31 December 2004 and 2003, respectively. RR 15,546 and RR 23,931 of tax losses carry forward were utilised in the years ended 31 December 2004 and 2003, respectively. Management believes it is probable that the remaining losses will continue to be realized through offset against future taxable profit.

Included in taxable temporary differences recognized in respect of property, plant and equipment is a taxable temporary difference resulting from the fair value adjustment following the acquisition of the additional interest in ZAO Sevmorneftegaz (see Note 28), with tax effect of RR 17,905.

The difference between the amount of temporary differences recognition and reversals for the year ended 31 December 2004 and respective deferred profit tax expense recognised in the consolidated statement of income for the year ended 31 December 2004 arises primarily from the acquisition of the additional interest in ZAO Sevmorneftegaz, and transactions with treasury shares that are recognised in the consolidated statement of changes in shareholders' equity.

In accordance with tax legislation of the Russian Federation tax losses and current tax assets of the different companies in the Group may not be set off against taxable profits and current tax liabilities of other companies. In addition, tax base is separately determined for main activities, income from operations with securities and service activities. Tax losses arising from one type of activity can not be offset with taxable profit of other types of activity. Consequently, taxes may accrue even where there is a net consolidated tax loss. Also, a deferred tax asset of one company (type of activity) of the Group can not be offset against a deferred tax liability of another company (type of activity). As at 31 December 2004 and 2003 deferred tax assets in the amount of RR 8,078 and RR 4,402 have not been recorded for the deductible temporary differences for which it is not probable that sufficient taxable profit will be available to allow the benefit of that deferred tax asset to be utilised.

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 209,855 and RR 166,524 as of 31 December 2004 and 31 December 2003, respectively. A deferred tax liability on these temporary differences was not recognized because management controls the timing of the reversal of the temporary differences and believes that they will not reverse in the foreseeable future.

19 FINANCIAL INSTRUMENTS

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

	31 December 2004	31 December 2003
Net unrealized fair value (losses) gains	(882)	3,749
Realized gains on sale, net	2,135	1,268
Gains on available-for-sale investments, net	1,253	5,017

Derivative financial instruments

As of 31 December 2004 the Group's banking subsidiaries had outstanding contracts to purchase and sell securities, precious metals and foreign currencies at the market price at the date of maturity. The Group expects to settle these contracts in the normal course of business. These instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions.

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

(In millions of Russian Roubles)

19 FINANCIAL INSTRUMENTS (continued)

	31 December 2004 Notional principal equivalents	31 December 2004 Fair value	31 December 2003 Notional principal equivalents	31 December 2003 Fair value
Foreign exchange option contracts				
Call options held – foreign	10,958	1,436	3,061	655
Put options held – foreign	1,195	2	-	-
Call options written – foreign	-	-	(1,461)	(655)
Put options written – foreign	-	-	1,378	-
	12,153	**1,438**	**2,978**	**-**
Foreign exchange forward contracts				
Assets foreign	13,798	(108)	-	-
Liabilities foreign	(5,058)	(15)	-	-
Liabilities domestic	(1,804)	(14)	-	-
	6,936	**(137)**	**-**	**-**
Bullion forward contracts				
Assets foreign	-	-	140	-
Liabilities foreign	-	-	(244)	-
	-	**-**	**(104)**	**-**
Securities option contracts				
Call options written – foreign	(180)	(11)	-	-
Put options written – domestic	2,210	(199)	-	-
	2,030	**(210)**	**-**	**-**
Securities forward contracts				
Assets – foreign	-	-	-	-
Assets – domestic	1,036	(2)	-	-
Liabilities – domestic	(14,675)	892	-	-
	(13,639)	**890**	**-**	**-**

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

20 PROVISIONS FOR LIABILITIES AND CHARGES

Notes		31 December 2004	31 December 2003
	Provision for pension obligations	38,046	30,595
31	Provision for environmental liabilities	5,134	4,034
	Other	1,095	251
		44,275	34,880

Total expenses associated with pension obligations are included within operating expenses in the consolidated statement of income and amount to RR 8,600 and RR 11,827 for the years ended 31 December 2004 and 2003, respectively.

The amounts recognized in the balance sheet are as follows:

	31 December 2004	31 December 2003
Present value of obligations (unfunded)	75,708	56,762
Unrecognised actuarial losses	(36,272)	(24,696)
Unrecognised past service cost	(1,390)	(1,471)
Net liability	38,046	30,595

(In millions of Russian Roubles)

20 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

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

	Year ended 31 December	
	2004	2003
Current service cost	2,751	1,761
Interest cost	3,456	6,647
Past service cost amortisation	82	82
Net actuarial losses	1,169	1,221
Vested prior service cost	1,142	2,116
Net expense recognised in the statement of income	8,600	11,827

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

	Year ended 31 December	
	2004	2003
Net liability at the beginning of the reporting period	30,595	19,386
Net expense recognised in the consolidated statement of income	8,600	11,827
Benefits paid	(1,149)	(618)
Net liability at the end of the reporting period	38,046	30,595

Principal actuarial assumptions used (expressed as weighted average):

	31 December	
	2004	2003
Discount rate (nominal)	7.6%	8.0%
Future salary increases (nominal)	7.0%	7.0%
Employees average remaining working life (years)	16	17

21 SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR 325,194 as of 31 December 2004 and 2003 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 roubles.

Dividends

In 2004, the Group accrued and paid total dividends in the nominal amount of RR 0.69 per share in respect of 2003. In 2003, the Group accrued and paid final dividends for the year ended 31 December 2002 in the nominal amount of RR 0.40 per share.

In 2005 the Board of Directors recommended payment of a final dividend for the year ended 31 December 2004 in the amount of RR 1.19 per share. Because this decision was reached after the balance sheet date, the final dividend proposed in respect of 2004 has not been recognised in the consolidated balance sheet. The final dividend of RR 28,171 (including dividend tax withheld at source in the amount of RR 2,735) will be paid prior to 31 December 2005.

Treasury shares

As of 31 December 2004 and 2003, subsidiaries of OAO Gazprom held 3,573 million and 3,841 million of the ordinary shares of OAO Gazprom (see Note 33). The Group management controls the voting rights of these shares.

(In millions of Russian Roubles)

21 SHAREHOLDERS' EQUITY (continued)

Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of the Rouble as of 31 December 2002. Also, retained earnings and other reserves include translation differences of RR 3,089 and RR 1,101 arising on the translation of the net assets of foreign subsidiaries and associated undertakings as of 31 December 2004 and 2003, respectively.

Other reserves include a statutory fund for social assets, created at the time of privatisation in accordance with Russian legislation. From time to time, the Group negotiates to return certain of these assets to governmental authorities, and this process may continue. Social assets with a net book value of RR 2,633 and RR 4,610 have been transferred to governmental authorities during the years ended 31 December 2004 and 2003, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

As of 31 December 2004 other reserves also include a revaluation surplus of RR 37,303 resulting from the fair value adjustment to the assets and liabilities in the previously held interests in ZAO Sevmorneftegaz following the transactions in December 2004 (see Note 28). The remaining amount of the revaluation surplus resulted primarily from the fair value adjustment to the assets and liabilities of ZAO Stimul (see Note 28).

The statutory accounting reports of the parent company, OAO Gazprom, are the basis for profit distribution and other appropriations. The basis of distribution is defined by legislation as the current year net profit, as calculated in accordance with RAR. For 2004, the statutory profit for the parent company was RR 161,084. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

22 SALES

	Year ended 31 December	
	2004	**2003**
Gas sales (including excise tax and custom duties, net of VAT) to customers in:		
Russian Federation	252,552	207,056
Former Soviet Union (excluding Russian Federation)	88,440	58,945
Europe	607,695	567,855
Gross sales of gas	948,687	833,856
Excise tax	(3,703)	(154,051)
Customs duties	(177,526)	(29,343)
Net sales of gas	767,458	650,462
Sales of gas condensate and oil and gas products	122,248	92,180
Gas transportation sales	29,027	28,226
Other revenues	58,043	48,885
	976,776	819,753

From 1 January 2004 the following changes in tax legislation of the Russian Federation became effective:

- excise tax on natural gas (produced after 1 January 2004) was abolished;
- customs duties on natural gas increased from 5% to 30%.

Gross sales of gas for the year ended 31 December 2004 include customs duties, and to conform to the current year presentation, reclassifications have been made for the year ended 31 December 2003 as gross sales of gas were previously presented including excise tax but net of customs duties and VAT.

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

(In millions of Russian Roubles)

22 SALES (continued)

The Itera Group is a producer and distributor of gas in the Russian Federation and other former Soviet Union countries. Gas transportation sales (net of VAT) to companies of the Itera Group amounted to RR 5,980 (16.8 bcm) and RR 7,462 (31.7 bcm) for the years ended 31 December 2004 and 2003, respectively. Trade receivables in respect of gas transportation services supplied to the Itera Group amounted to RR 1,562 and RR 1,373 as of 31 December 2004 and 2003, respectively.

The Group also had gas sales in the Russian Federation (including excise tax and net of VAT) to companies of the Itera Group amounting to RR 6,657 (12.8 bcm) and RR 6,388 (15.5 bcm) for the years ended 31 December 2004 and 2003, respectively. Trade receivables in respect of gas sales to the Itera Group amounted to RR 1,079 and RR 1,694 as of 31 December 2004 and 2003, respectively.

Eural Trans Gas is engaged in purchasing gas from Central Asia for resale to customers in Europe. Gas transportation sales to Eural Trans Gas amounted to RR 11,068 (34,6 bcm) and RR 14,759 (34.9 bcm) for the years ended 31 December 2004 and 2003, respectively. Trade receivables in respect of gas transportation services supplied to Eural Trans Gas amounted to RR 3,693 and RR 2,971 as of 31 December 2004 and 2003, respectively.

23 OPERATING EXPENSES

	Year ended 31 December	
	2004	**2003**
Staff costs	122,853	100,122
Depreciation	110,264	99,648
Transit costs	103,853	108,711
Taxes other than on income	72,280	35,088
Purchased gas	66,546	25,666
Materials	64,890	44,395
Repairs and maintenance	40,662	36,533
Electricity	28,882	24,300
Cost of goods for resale, including refined products	18,173	14,302
Social expenses	13,335	11,724
Insurance	13,110	2,384
Transportation services	9,207	5,684
Provisions for liabilities and charges	8,501	13,528
Equipment maintenance	8,349	6,422
Rental expenses	6,247	3,685
Research and development	5,845	6,083
(Release of) charge for provisions for impairment of assets	(22,452)	15,298
Other	38,398	39,842
	708,943	593,415

Taxes other than on income consist of:

	Year ended 31 December	
	2004	**2003**
Natural resources production tax	57,507	19,644
Property tax	9,724	10,646
Other taxes	5,049	4,798
	72,280	35,088

(In millions of Russian Roubles)

23 OPERATING EXPENSES (continued)

Operating expenses include natural resources production tax in the amount of RR 57,507 and RR 19,644 for the years ended 31 December 2004 and 2003, respectively. The increase was primarily due to the change in tax legislation. From 1 January 2004, the natural resources production tax rate changed from 16.5% of the value of natural gas produced to a fixed rate of 107 roubles per mcm, and for gas condensate – from 16.5% of the value of gas condensate produced from gas condensate fields and RR 340 per ton of gas condensate produced from oil and gas condensate fields (the latter rate was subject to adjustments depending on fluctuations of oil prices and the RR exchange rate) to a single rate of 17.5% of the value of gas condensate produced.

24 SETTLEMENT OF ACCOUNTS RECEIVABLE DUE FROM NAK NAFTOGAZ UKRAINE

In August 2004 OAO Gazprom signed agreements to settle RR 47,479 (including RR 36,922 of principal and RR 10,557 interest and fines) of accounts receivable due from NAK Naftogaz Ukraine for gas shipments made from 1997-2000, for RR 36,548. Only the principal amount of the accounts receivable from NAK Naftogaz Ukraine of RR 36,922 had previously been recognized and this amount had a full impairment provision against it in the Group's IFRS financial records.

By their legal form the transactions following the August 2004 agreements were represented by the transfer and settlement of the debt for old gas shipments, and the payment of an advance for future transit services. For IFRS purposes, the transactions were treated as a change in the method of settlement of the original receivable. In August 2004, in accordance with an addendum to the existing transit agreement, NAK Naftogaz Ukraine agreed to provide OAO Gazprom with gas transit services from 2005-2009, RR 36,548 of which, in effect, will be provided in settlement of the accounts receivable for gas shipments made from 1997-2000.

The net effect on profit after tax of the transactions in the year ended 31 December 2004 was a net profit of RR 20,134. As of 31 December 2004, short-term and long-term accounts receivable include RR 6,109 (net of an impairment provision of RR 856) and RR 16,224 (net of an impairment provision of RR 12,150), respectively. These balances reflect management's reassessment of the future recoverability of the accounts receivable balance based on discounted future cash benefits of the accounts receivable settlement in accordance with the August 2004 agreements referred to above.

25 RECONCILIATION OF RAR PROFIT TO IFRS NET PROFIT

	Year ended 31 December	
	2004	**2003**
RAR profit per consolidated statutory accounts	200,806	170,877
Effects of IFRS adjustments:		
Deferred tax expense	(4,955)	(3,461)
Transition period current profit tax expense and other taxes	6,495	6,458
Impairment provisions and other provisions, net of reversal of impairment provision against accounts receivable due from NAK Naftogaz Ukraine	7,114	(15,816)
Difference in gains on and extinguishment of restructured liabilities	(2,064)	(3,066)
Gains (losses) on available-for-sale investments	586	(3,006)
Loan interest capitalized	16,373	13,807
IAS 29 effect in respect of property, plant and equipment, inventory and investments	(16,821)	(7,240)
Differences in settlement of accounts receivable due from NAK Naftogaz Ukraine	(3,867)	-
Other	2,017	542
IFRS net profit	205,684	159,095

26 EARNINGS PER SHARE

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

(In millions of Russian Roubles)

26 EARNINGS PER SHARE (continued)

There were 20.1 billion and 19.8 billion weighted average shares outstanding for the years ended 31 December 2004 and 2003, respectively.

27 NET CASH PROVIDED BY OPERATING ACTIVITIES

	Year ended 31 December	
	2004	2003
Profit before profit tax and minority interest	287,865	236,974
Adjustments to net profit before profit tax		
Depreciation	110,264	99,648
(Release of) charge for impairment provisions and other provisions	(19,610)	28,826
Net unrealised foreign exchange gains	(17,775)	(12,529)
Interest expense on borrowings and promissory notes	25,165	32,301
Gains on and extinguishment of restructured liabilities	(4,934)	(4,007)
Losses on disposal of property, plant and equipment	9,478	1,749
Interest income	(15,605)	(15,295)
Net increase in long-term assets	(29,631)	(10,759)
Net decrease in long-term liabilities	(5,704)	(22,116)
Non-cash additions and disposals of property, plant and equipment and other long-term investments	(43,882)	(34,883)
Gains on fair value adjustments for trading and available-for-sale investments	(1,253)	(3,749)
Share of net income from associated undertakings	(8,151)	(3,478)
Total effect of adjustments	(1,638)	55,708
	286,227	292,682
Changes in working capital		
Increase in accounts receivable and prepayments	(52,101)	(47,308)
Increase in inventories	(18,295)	(14,890)
Increase in other current assets	(16,173)	(12,614)
Increase (decrease) in accounts payable and accrued charges, excluding interest, dividends and capital construction	31,587	(38)
Decrease in taxes payable (other than profit tax)	(35,943)	(2,925)
Decrease (increase) in available-for-sale and trading investments	3,186	(26,741)
Total effect of working capital changes	(87,739)	(104,516)
Profit tax paid	(49,026)	(48,096)
Net cash provided by operating activities	**149,462**	**140,070**

Total cash taxes paid:

	Year ended 31 December	
	2004	2003
Custom duties	182,768	34,696
VAT	65,367	51,878
Natural resources production tax	57,717	18,443
Profit tax	49,026	48,096
Excise	31,183	150,449
Unified social tax	21,394	17,180
Personal income tax	15,366	9,900
Property tax	11,413	9,904
Other	6,209	11,354
Total taxes paid	**440,443**	**351,900**

28 SUBSIDIARY UNDERTAKINGS

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

OOO Astrakhangazprom
OOO Bashtransgaz
OAO Belozerniy GPK
OOO Burgaz
OOO VNIIgaz
OOO Volgogradtransgaz
OOO Volgotransgaz
OOO Gazkomplektimpex
OOO Gaznadzor
OOO Gazobezopasnost
OOO Gazpromavia
OAO Gazpromregiongaz
ZAO Gazpromstroyengineering
OOO Gazpromtrans
OOO Gazsvyaz
OOO Gaztorgpromstroy
OOO Gazflot
OOO Gazexport
OAO Gubkinskiy GPK
OOO Informgaz
OOO IRTs Gazprom
OOO Kavkaztransgaz
OOO Kaspygazprom
OAO Kauchuk
OOO Kubangazprom
OOO Lentransgaz
OOO Mezhregiongaz
OOO Mostransgaz
OOO Nadymgazprom
OOO Nadymstroygazdobytcha
OAO Nizhnevartovskiy GPK
ZAO Novokuybishevsk petrochemical company
OOO Novourengoysky GCC
OOO Noyabrskgazdobycha
OOO Nyagangazpererabotka
OOO Orenburggazprom
OOO Permtransgaz
OOO Podzemgazprom
OOO Purgazdobycha
OOO Samaratransgaz
OOO Severgazprom
OAO Severneftegazprom
OOO Liquified gas
OAO Sibur-Volzhskiy
OAO Sibur-PETF
OAO Sibur-Tyumen
OAO Sibur-Tyumen-Gaz
ZAO Sibur-Khimprom
ZAO Stimul
OOO Surgutgazprom
OOO Tattransgaz
OOO Tobolsk-Neftekhim
OOO Tollyattikauchuk
OOO Tomsk petrochemical plant
OOO Tomsktransgaz
OOO TyumenNIIgiprogaz
OOO Tyumentransgaz
OOO Uralsk tire plant
OOO Uraltransgaz
OOO Urengoygazprom
OAO Khimprom
OOO Yugtransgaz
OAO Yuzhno-Balykskiy GPK
ZAO Yamalgazinvest
OOO Yamburggazdobycha

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

Other subsidiary undertakings, 100% owned

Company	Type of activity	Location
OOO GazNeftoTrade	Investing	Russia
OOO Gazprominvestholding	Investing	Russia
OAO Gazprom-Media	Mass media management	Russia
Gazprom Marketing and Trading Ltd.	Gas distribution	Great Britain
Gazprom Finance B.V.	Investing	Netherlands
Gazprom UK Ltd.	Investing	Great Britain
NPF Gazfund	Non-state pension fund	Russia
Zarubezhgaz Erdgashandel GmbH (ZGG)	Gas distribution	Germany
Zarubezhgaz Management und Beteiligungsgesellschaft mbH (ZMB)	Gas distribution	Germany
Leadville Investments Ltd.	Investing	Cyprus
OOO Neftekhim leasing	Investing	Russia
OOO Sibur-Europe	Trading	Russia
OOO Sibur-Russian-Tires	Trading	Russia
OAO Tomskpolimerprom	Investing	Russia
ZAO Trading house Sibur	Investing	Russia

(In millions of Russian Roubles)

28 SUBSIDIARY UNDERTAKINGS (continued)

Other subsidiary undertakings, less than 100% owned

	Percent of share capital held as of 31 December		
	2004	**2003**	**Location**
OAO Azot (Kemerovo)	75	75	Russia
Wintershall Erdgas Handelshaus GmbH & Co. KG (WIEH)	50	50	Germany
Wintershall Erdgas Handelshaus Zug AG (WIEE)	50	50	Romania
OAO Volgogradneftemash	51	51	Russia
OAO Volzhskiy air-nitrogen plant	51	51	Russia
OAO Voltair	82	82	Russia
OAO VoltairProm	82	82	Russia
OAO Voronezhsintezkauchuk	75	75	Russia
OAO Vostokgazprom	99	84	Russia
OAO Gazavtomatika	49	49	Russia
AB Gazprombank (ZAO)	99	99	Russia
OOO GazpromPurInvest	99	-	Russia
OAO Gazpromtrubinvest *	99	99	Russia
OAO Gazenergoservice	51	51	Russia
ZAO Gerosgaz	51	51	Russia
OAO Zapsibgazprom	77	77	Russia
ZAO Kaunasskaya power station	99	99	Lithuania
OAO Krasnoyarskgazprom	75	75	Russia
OAO Krasnoyarskiy ZSK	53	51	Russia
OAO Omskshina	66	62	Russia
OAO Permsky GPZ	50	50	Russia
OAO Plastic	64	64	Russia
ZAO Purgaz	51	51	Russia
ZAO Rosshelf	53	53	Russia
ZAO Sevmorneftegaz	58	50	Russia
OAO AK Sibur	99	78	Russia
OAO Sibur-Neftekhim	83	56	Russia
AKB Sovfintrade	94	94	Russia
OAO Spetsgazavtotrans	51	51	Russia
OAO TV Company NTV	69	69	Russia
OOO TomskNeftekhim	93	93	Russia
OAO Uralorgsintez	67	67	Russia
OAO Tsentrgaz	99	99	Russia
OAO Yaroslavsky tire plant	75	50	Russia

* In 2004 OAO Kostromatrubinvest was renamed OAO Gazpromtrubinvest.

OAO Vostokgazprom

In April 2004 OAO Gazprom purchased all of the 2,275,000 newly issued additional ordinary shares of the Group’s production subsidiary OAO Vostokgazprom. The new shares were purchased for cash as a contribution into the equity of OAO Vostokgazprom in the amount of RR 2,275. The issue was registered by the Federal Service for Financial Markets in May 2004. As a result of the purchase of a minority interest the ownership interest of OAO Gazprom increased from 83.8% to 99.9%. There was no significant premium paid over the carrying amount of the minority interest acquired.

28 SUBSIDIARY UNDERTAKINGS (continued)

Petrochemical companies

In the third quarter of 2002 the Group signed agreements to acquire additional interests in a number of Russian petrochemical companies, the majority of which were already affiliated with OAO AK Sibur. In April 2003, following the completion of legal procedures the Group established control over the majority of these companies, including OAO Sibur–Tyumen, and thereby increased its controlling interest in the share capital of OAO AK Sibur from 50.7% to 75.7%. In respect of this acquisition the Group issued long-term promissory notes with a nominal value of RR 17,587. In September 2003 the Group acquired an additional 2.4% interest in AK Sibur for RR 102. In November 2003 the Group signed an agreement with ZAO Gazoneftekhimicheskaya compania to acquire an additional 14.23% interest in OAO AK Sibur, which was transferred to the Group in April 2004. The nominal value of a long-term promissory note issued by a subsidiary of OAO Gazprom in connection with this transaction was RR 669. As a result of this transaction, the Group increased its ownership interest to 92.3%. Related to the previous acquisitions, in August 2004 the Group acquired a 100% interest in OOO Triodecor, a shareholder of OAO AK Sibur, at the nominal value of RR 8.4 thousand paid in cash. As a result of the transactions from April 2003 to August 2004 the Group increased its controlling interest in OAO AK Sibur to 99.9%. Group management has assessed the fair value of promissory notes issued in respect of acquisition of additional interests in the Russian petrochemical companies as RR 2,745 as of 31 December 2004. No material goodwill resulted from the initial acquisitions of controlling interests in the petrochemical companies and there was no significant premium paid over the carrying value in the acquisitions of further minority interests.

OAO Sogaz

In July 2004 the Group sold a 49.98% interest in its subsidiary insurance company OAO Sogaz for RR 1,690. In August 2004 the Group sold a further 25.99% interest for RR 800. As a result of these transactions the Group decreased its interest from 99.98% to 24.01%. As of 31 December 2004 OAO Sogaz was included within investments in associated undertakings. No significant gain or loss resulted from those transactions.

Joint activity established to develop Prirazlomnoye and Schtokmanovskoye fields

A joint activity was established to develop the Arctic shelf (Prirazlomnoye and Schtokmanovskoye fields) in the Barents and Pechora Seas. From inception OAO Gazprom and ZAO Rosshelf, its 53% owned subsidiary, had 99.1% and 0.9% direct interests in the joint activity, respectively. In October 2002 OAO Gazprom and ZAO Rosshelf signed an amendment to the joint activity agreement that provided for an additional participant – ZAO Sevmorneftegaz. ZAO Sevmorneftegaz was a company jointly controlled by ZAO Rosshelf and OAO NK Rosneft-Purneftegaz, a subsidiary of OAO NK Rosneft. Under the agreement, ZAO Sevmorneftegaz made a non-cash contribution assessed at RR 4,334 thus obtaining a 48.9% interest in the joint activity. As a result of the transaction OAO Gazprom and ZAO Rosshelf had 48.7% and 2.4% direct interests in the joint activity, respectively, and the Group's total effective interest decreased from 99.6% to 62.9%.

In July 2003 all joint activity parties and OAO NK Rosneft signed an agreement to provide OAO NK Rosneft with a 49.95% direct interest in the joint activity in recognition of its prior investments into the joint activity through OAO NK Rosneft-Purneftegaz. The effect of this transaction was to decrease the Group's total effective interest in the joint activity from 62.9% to 48.85%.

In December 2004 the Group signed agreements and paid RR 6,291 in cash to acquire from OAO NK Rosneft its 49.95% interest in the joint activity. In December 2004 the Group purchased from OAO NK Rosneft-Purneftegaz an 8.0% interest in the share capital of ZAO Sevmorneftegaz for RR 5,968 paid in cash. As a result of these transactions the Group increased its interest in ZAO Sevmorneftegaz from 50.0% to 58.0% and became the only participant in the joint activity. As of 31 December 2004 the assets and liabilities of the joint activity and ZAO Sevmorneftegaz were consolidated in the Group's balance sheet.

(In millions of Russian Roubles)

28 SUBSIDIARY UNDERTAKINGS (continued)

Details of net assets acquired and goodwill are as follows:

	31 December 2004
Cash paid	17,981
Fair value of net assets acquired	(17,964)
Goodwill	17

The assets and liabilities arising from the acquisitions are as follows:

	Fair value	Acquiree's carrying amount
Current assets	6,696	6,696
Non-current assets	109,979	17,468
Current liabilities	(613)	(613)
Non-current liabilities	(19,286)	(1,381)
Net assets	96,776	22,170
Minority interest	(31,335)	
Total net assets	65,441	
Net assets in interests previously owned	(47,477)	
Total net assets acquired	17,964	
Purchase consideration settled in cash	17,981	
Cash and cash equivalents in ZAO Sevmorneftegaz and joint activity acquired	(1,624)	
Cash outflow on acquisition	16,357	

Revaluation surplus resulting from the fair value adjustment to the assets and liabilities in the previously held interests is as follows:

Fair value of net assets in interests previously owned	47,477
Carrying value of net assets in interests previously held	(10,174)
Revaluation surplus (see Note 10)	37,303

ZAO Sevmorneftegaz and the joint activity have no significant revenue or net profit in 2004 as the joint activity is in its development stage.

OOO Purgazdobycha

In November 2004 the Group sold an 8.34% interest in OAO Purneftegazgeologiya and simultaneously acquired a 99.99% effective interest in OOO Purgazdobycha. OOO Purgazdobycha is a production company holding a license for the development of the Zapadno-Tarkosalinskoye gas field in Western Siberia. The fair value of assets and liabilities acquired is not significant and no significant goodwill resulted from this transaction.

ZAO Stimul

In June and December 2004 the Group acquired an additional 12.8% and 49.0% interest, respectively, in ZAO Stimul. As a result of these transactions the Group increased its interest in the charter capital of ZAO Stimul from 38.2% to 100%, for RR 3,369 paid in cash. ZAO Stimul is a production company, which holds a license for the development of the Eastern part of the Orenburg oil and gas condensate deposit. Fair value of assets and liabilities acquired is not significant. No significant goodwill resulted from this transaction.

(In millions of Russian Roubles)

28 SUBSIDIARY UNDERTAKINGS (continued)

OAO Gazavtomatika

In 2001 the Group's interest in OAO Gazavtomatika decreased from 51% to 49% as the Group did not participate in an additional share issue by OAO Gazavtomatika. However, due to the fact that the Group continued to exercise control over activities of the above company, it was still considered as a subsidiary.

29 MINORITY INTEREST

	Year ended 31 December	
	2004	2003
Minority interest at the beginning of the reporting period	14,793	10,177
Minority interest share of net profit of subsidiary undertakings	2,293	3,062
Net change in minority interest as a result of acquisitions	28,465	1,554
Minority interest at the end of the reporting period	45,551	14,793

30 RELATED PARTIES

For the purpose of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures".

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2004 are detailed below.

Government

The Government of the Russian Federation is the principal shareholder of the Group and directly owns 38.37% of the issued shares of OAO Gazprom as of 31 December 2004 and 2003. This excludes the interest held by the state owned company OAO Rosgazifikatsia as of 31 December 2004 and 2003. As of 31 December 2004 and 2003 the subsidiaries of the Group held 15.1% and 16.2% of OAO Gazprom shares through which they are entitled to vote as owners. The result of the transaction with OAO Gazprom treasury shares after the balance sheet date will be to give the Government a controlling interest of over 50% in OAO Gazprom (see Note 33). Following the General Meeting of Shareholders in June 2004, the 11 seats on the Board of Directors include five state representatives, four 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.

Directors' remuneration

OAO Gazprom paid to members of the Board of Directors and Management Committee salary and bonuses of approximately RR 363 and RR 243 for the years ended 31 December 2004 and 2003, respectively. The salary and bonuses of members of the Board of Directors is subject to approval by the General Meeting of Shareholders. Salary and bonus compensation paid to members of the Management Committee is determined by the terms of annual employment contracts.

30 RELATED PARTIES (continued)

Associated undertakings

Included within investments in associated undertakings (see Note 11) is a loan receivable from SGT EuRoPol GAZ S.A., in the amount of RR 21,494 and RR 23,576 as of 31 December 2004 and 2003, respectively, issued by AB Gazprombank (ZAO), a subsidiary of the Group, at an interest rate of LIBOR + 2.6%.

Included within accounts receivable and prepayments (see Note 8) are accounts receivable from Group associated undertakings in the amount of RR 14,032 and RR 14,602 as of 31 December 2004 and 2003, respectively.

Included within long-term accounts receivable and prepayments (see Note 12) are accounts receivable from Group associated undertakings in the amount of RR 23,191 and RR 22,813 as of 31 December 2004 and 2003, respectively, including USD and Euro denominated long-term receivables from SGT EuRoPol GAZ S.A. in the amount of RR 7,053 and RR 6,216 as of 31 December 2004 and 2003, respectively.

Also included within long-term accounts receivable and prepayments is a Euro denominated loan receivable from WINGAS GmbH in the amount of RR 14,474 and RR 14,830 as of 31 December 2004 and 2003, respectively. The interest rates vary for the different loan tranches. As of 31 December 2004 and 2003 the average effective interest rate for the loan receivable from WINGAS GmbH was Libor+1,25% and 4.4%, respectively.

During the years ended 31 December 2004 and 2003 the Group sold gas to its associated undertakings in the amount of RR 90,223 and RR 91,803, respectively.

During the year ended 31 December 2004 the Group recorded sales of gas to OAO Mosenergo in the amount of RR 9,791 (see Note 11). Gas is sold on the domestic market at prices regulated by the Federal Tariffs Service.

Gas is sold to associated undertakings, except for that sold to AO Moldovagaz, on the basis of long-term contracts, at index prices based on world prices for oil products and, to some extent, coal. Gas prices per thousand cubic meters for such sales ranged from USD 78 to USD 188 and from USD 80 to USD 147 in the year ended 31 December 2004 and 2003, respectively. Gas is sold to AO Moldovagaz based on annual contracts with fixed prices. Prices of gas per thousand cubic meters sold to Moldova amounted to USD 80 and USD 80 in the year ended 31 December 2004 and 2003, respectively.

The Group’s impairment provision on accounts receivable included RR 17,331 and RR 16,450 in respect of amounts due from AO Moldovagaz as of 31 December 2004 and 2003, respectively.

In 2004 and 2003 the Group purchased gas from ZAO KazRosGaz for RR 691 at USD 32 per mcm and RR 4,154 at USD 30 per mcm.

In addition, the Group purchased gas transportation services from certain of its associated undertakings, principally SGT EuRoPol GAZ S.A., which amounted to RR 17,793 and RR 20,423 for the years ended 31 December 2004 and 2003, respectively. The cost of these services was determined based on prices of gas sold to these companies.

Included within accounts payable are accounts payable to the Group’s associated undertakings for purchased gas transportation services in the amount of RR 102 and RR 3,590 as of 31 December 2004 and 2003, respectively.

OAO AK Sibur

During 2003 a substantial portion of OAO AK Sibur transactions was executed with related parties. These related party transactions were mainly with associated undertakings of OAO AK Sibur. During 2003-2004 additional interests were acquired and these associated undertakings are now subsidiaries of the Group (see Note 28). Consequently these transactions are eliminated on consolidation.

30 RELATED PARTIES (continued)

OAO Stroytransgaz

OAO Stroytransgaz is a major Russian constructor of pipelines, compressor stations and oil refineries. In the normal course of business, the Group outsources pipeline construction services to third-party contractors through a tender process. OAO Stroytransgaz has been a successful bidder in a large number of these tenders to construct pipelines in the Russian Federation. During the years ended 31 December 2004 and 2003 transactions with OAO Stroytransgaz were entered into under framework contracts which had been executed by certain prior representatives of the Group's Board of Directors and members of their families who at that time owned shareholdings in OAO Stroytransgaz.

OAO Stroytransgaz rendered construction services for the Group in the amounts of RR 22,304 and RR 26,753 for the years ended 31 December 2004 and 2003, respectively. As of 31 December 2004 and 31 December 2003, the Group had advances and receivables due from OAO Stroytransgaz in the amounts of RR 2,509 and RR 1,306, respectively. As of 31 December 2004 and 31 December 2003, the Group had accounts payable to OAO Stroytransgaz for construction contracts of RR 5,795 and RR 10,064, respectively.

OOO Interprokom

During the years ended 31 December 2004 and 2003, respectively, transactions with OOO Interprokom were entered into under framework contracts which had been executed by certain prior members of the Board of Directors and a prior member of the Management Committee of the Company and members of their families who at that time or currently own interests in OOO Interprokom.

OOO Interprokom acts as an agent for the Group in the acquisition of equipment and is remunerated for those services based on a fixed commission percentage. OOO Interprokom acted as an agent in the Group's acquisition of RR 419 and RR 4,260 of equipment for the year ended 31 December 2004 and 2003, respectively. As of 31 December 2004 and 2003, the Group had advances and receivables due from OOO Interprokom in the amount of RR 673 and RR 3,891, respectively. Commission paid to OOO Interprokom amounted to RR 11 and RR 60 for year ended 31 December 2004 and 2003, respectively. As of 31 December 2004 and 2003, the Group had accounts payable to OOO Interprokom in respect of equipment supplies of RR 271 and RR 1,884, respectively.

AB Gazprombank (ZAO), the Group's principal banking subsidiary, had outstanding import letters of credit issued on behalf of OOO Interprokom and sub-contractors of OOO Interprokom in the amount of RR 10 and RR 1,159 as of 31 December 2004 and 2003, respectively. These import letters of credit are issued to third party suppliers in connection with the purchase of equipment by OOO Interprokom on behalf of the Group.

31 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS

Operating environment

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

Legal proceedings

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

31 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS (continued)

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments.

Management believe that its interpretation of the relevant legislation is appropriate and all of the Group's tax, currency and customs positions, based on existing legislation, will be sustained.

In 2004 the tax authorities commenced challenges to the Group's interpretation of the tax legislation in respect of natural resources production tax related to gas condensate, and in 2004 and 2005 issued several decisions resulting in additional natural resources production tax and associated penalties and interest in respect of certain of the Group subsidiaries. The management of the subsidiaries disagree with the decisions of the tax authorities in respect of additional natural resources production tax on stable gas condensate and associated penalties and interest, and are now defending their tax positions with regards to those decisions in court. Aggregate assessments received to date from the tax authorities are not material to the consolidated financial position and results of operations of the Group as of and for the year ended 31 December 2004. Management is not able to estimate the range of potential additional taxes, interest and fines for the Group, if any, resulting from claims from the tax authorities.

Group changes

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

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 reasonably estimated, but could be material. In the current enforcement climate under existing legislation, the Group management believes that there are no significant liabilities for environmental damage, other than amounts that have been accrued in the consolidated financial statements.

Social commitments

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

(In millions of Russian Roubles)

31 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS (continued)

Financial guarantees

	31 December 2004	31 December 2003
Outstanding guarantees issued on behalf of :		
BSPC	34,325	36,170
Interconnector (UK) Limited	30,524	32,400
Gaztransit	3,160	2,300
NAK Naftogaz Ukraine	744	2,945
Eural Trans Gas	-	6,274
Albustan Investments Ltd	-	2,396
Itera Group companies	-	1,731
Other	6,258	5,548
	75,011	89,764

Included in financial guarantees are amounts denominated in USD of USD 2,592 million and USD 2,993 million as of 31 December 2004 and 2003, respectively.

In April 2000, credit facilities were provided to BSPC, an associated undertaking (see Note 11), by a group of Italian and Japanese banks for the amount of RR 71,233 (USD 2,053 million) for the construction of the offshore portion of the Blue Stream pipeline. Beginning in 2001, the Group was obligated to provide guarantees on behalf of BSPC in respect of RR 39,152 (USD 1,187 million) related to these credit facilities. As of 31 December 2004 and 2003 outstanding amounts of these credit facilities were RR 33,326 (USD 1,201 million) and RR 36,023 (USD 1,223 million), respectively, which were guaranteed by the Group, pursuant to its obligation. As of 31 December 2004 BSPC also borrowed RR 999 (USD 36 million) of new credit facilities, provided by DEPFA, which were guaranteed by the Group.

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

In the year ended 31 December 2004 Eural Trans Gas, Itera Group companies and Albustan Investments Ltd settled the loans in respect of which the Group had issued guarantees. Therefore, the Group's obligations under the above guarantee contracts were terminated as of 31 December 2004.

Line "Other" includes mainly guarantees issued by AB Gazprombank (ZAO) to third parties in amount of RR 3,942 and RR 4,343 as of 31 December 2004 and 31 December 2003, respectively.

Other guarantees

As of 31 December 2004 26.1% of common shares and 15.5% of preferred shares of OAO Stroytransgaz, held by the Group (see Note 11), were pledged as a guarantee of the loan received from OAO Vneshtorgbank.

Capital commitments

In the normal course of business, the Group has entered into contracts for the purchase of property, plant and equipment. The Management Committee has approved a capital expenditure budget for 2005 of RR 187,900.

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 2004 no loss is expected to result from these long-term commitments.

31 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS (continued)

Loan commitments

As of 31 December 2004 and 2003 the Group banking subsidiary AB Gazprombank (ZAO) had undrawn loan commitments related to credit facilities issued to external customers in amounts of RR 21,603 and RR 13,520, respectively.

32 FINANCIAL RISK FACTORS

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

Foreign exchange risk

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

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

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

Interest rate risk

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

Credit risk

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

Commodity risk

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

33 POST BALANCE SHEET EVENTS

Treasury shares

In September 2004 a decision was made to increase the interest of the State in the charter capital of OAO Gazprom. The Group management, together with the Government, have considered different options for facilitating such an increase, including the use by the Government of immediately available funds to purchase for cash OAO Gazprom shares currently held by certain OAO Gazprom subsidiaries. At various times, other options under consideration have included a merger with, or acquisition by OAO Gazprom, by means of a share exchange, of certain companies in which the State owns shares, including OAO NK Rosneft, a large Russian oil producer that is 100% owned by the Russian Federation. In June 2005 the Board of Directors approved the option under which in June 2005 the Group will sell 10.7399% of treasury shares held by the Group's subsidiaries to OAO Rosneftegaz, a company 100% owned by the Government, for consideration of RR 203,502 to be paid in cash and settled by the end of 2005, less additional profit tax of approximately RR 22,573. The underlying agreements have been signed by the parties in June 2005. The result of this transaction will be to give the Government a controlling interest of over 50% in OAO Gazprom. Upon transfer of the shares to the Government, shareholders' equity will be increased with the corresponding receivable in respect of the amounts due from the Government recognized at discounted value, and there will be no significant impact on the consolidated results of operations.

Financial investments

In January 2005 the Group acquired a further 9% interest in AO Latvias Gaze from OOO Itera Latvia for USD 58 million thus increasing its interest to 34% + one share.

In March 2005 the Group acquired the remaining 42% interest in ZAO Sevmorneftegaz from NK Rosneft-Purneftegaz, for RR 31,335 paid in cash in December 2004 (see Note 8).

In June 2005 the Group acquired a 50.19% interest in OAO Redaktsia gazety Izvestia from KM Technologies (Overseas) Ltd. for USD 25 million.

Borrowings

In February 2005 the Group issued RR 5,000 documentary bonds due 2010 at an interest rate of 8.22%.

In March 2005 the Group received SEK 152 million of borrowings from ING Bank N.V. due in 2014 at an interest rate LIBOR + 0.37%.

In April 2005 AB Gazprombank (ZAO) received a loan from a syndicate of foreign banks in the amount of USD 650 million due in 2008. The loan bears an interest rate of LIBOR + 1.5%.

In May 2005 the Group received USD 272 million due in 2010 at an interest rate LIBOR + 1.5% and in June 2005 – USD 700 million due in 2008 at an interest rate LIBOR + 1.25% under non-secured loan agreement for the total amount of USD 972 million syndicated by ABN AMRO.

In May 2005 the Group issued Euro 1,000 million of Loan Participation Notes due in 2015 at an interest rate of 5.875%. The Notes were issued under the USD 5,000 million Programme for the Issuance of Loan Participation Notes established on 22 September 2003.

33 POST BALANCE SHEET EVENTS (continued)

Taxation

From 1 January 2005 the following changes in tax legislation that may impact the financial position and financial results of the Group have become effective:

- natural resources production tax rate for natural gas changed from a fixed rate of 107 roubles per mcm to a fixed rate of 135 roubles per mcm;
- zero VAT rate became effective for sales of natural gas and gas condensate to certain CIS countries;
- excise tax rates for certain oil products increased;
- new scale of Unified Social Tax (UST) rates.

Management of the Group currently estimates that the changes in tax legislation will likely result in an increased tax burden beginning in 2005.

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