



Open Joint Stock Company Gazprom

Series 1

U.S.\$1,250,000,000 7.201% Structured Export Notes due February 1, 2020

guaranteed by

Open Joint Stock Company Gazprom and Gazexport Ltd.

to be issued by

Gazprom International S.A.

*(a société anonyme registered with the Register of Commerce
and Companies in Luxembourg under number B-101526)*

for the purpose of financing a loan to

Open Joint Stock Company Gazprom

Gazprom International S.A. (the “Issuer”) is issuing U.S.\$1,250,000,000 7.201% Structured Export Notes due February 1, 2020 (the “Notes”) pursuant to its Structured Export Notes Program (the “Program”). This document is the Supplemental Offering Circular in respect of the Notes. The Notes are unconditionally and irrevocably guaranteed by Open Joint Stock Company Gazprom, an open joint stock company organized under the laws of the Russian Federation (the “Borrower,” “Gazprom” or the “Company”) (the “Gazprom Notes Guarantee”) and by Gazexport Ltd., a limited liability company organized under the laws of the Russian Federation (“Gazexport” and, together with Gazprom, the “Notes Guarantors”) (the “Gazexport Notes Guarantee” and, together with the Gazprom Notes Guarantee, the “Notes Guarantees”). The issue of the Notes will be for the sole purpose of financing a loan (the “Loan”) to the Borrower, on the terms of a loan agreement between the Issuer and the Borrower dated July 28, 2004 (the “Loan Agreement”). The Loan is unconditionally and irrevocably guaranteed by Gazexport, on the terms of a guarantee agreement between the Issuer and Gazexport dated July 28, 2004 (the “Loan Guarantee”).

Gazprom’s payment obligations under the Loan, if elected to be payable in Russian Roubles; Gazexport’s obligations under the Loan Guarantee, if the Loan is payable in Russian Roubles; and, subject to the occurrence of certain future events, the Notes Guarantors’ obligations under their respective Notes Guarantees, will be secured by assignments by Gazprom and Gazexport of receivables under certain Gas Sales Contracts (as defined below) with selected gas buyers (the “Gas Buyers”). The initial Gas Sales Contracts will be a Gas Sales Contract with N.V. Nederlandse Gasunie, incorporated under the laws of the Netherlands (“Gasunie”) and a Gas Sales Contract with Eni S.p.A., incorporated under the laws of the Republic of Italy (“Eni”). Gazprom’s obligations in the original currency of the Loan will be unsecured, as will Gazprom’s and Gazexport’s obligations under the Notes Guarantees unless and until certain future events occur. Principal will be payable as set out herein, and interest on the Notes will be payable semi-annually in arrear on February 1 and August 1 in each year commencing on February 1, 2005 as described under “Terms and Conditions of the Notes—Payments.” Except as set forth herein (see “Taxation”), payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes of the Russian Federation or Luxembourg. If any such taxes are imposed, subject to certain exceptions, the Issuer will pay such Additional Amounts (as defined herein) as will result in receipt of amounts that would have been received had no taxes been imposed.

The Notes may be redeemed at any time in whole (but not in part) at par plus accrued interest (including Additional Amounts) if certain events occur involving Russian or Luxembourg withholding taxes. See “Terms and Conditions of the Notes—Redemption for Tax Reasons.” The Notes are also redeemable in full or in part, to the extent the corresponding Loan is repaid at the option of Gazprom at 100% of their principal amount plus accrued interest to the date of redemption plus a “Make-Whole Premium.” See “Description of the Notes—Redemption—Optional Redemption.”

The Issuer, subject to compliance with all relevant laws, regulations and directives, may from time to time issue further series of structured export notes (“Further Notes”) as set out herein. Any such Further Notes will benefit from the arrangements regarding the Gas Sales Contracts ratably with the Notes.

Issue Price 100%

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE “RISK FACTORS.”

The Notes, the Loan and the corresponding Loan and Notes Guarantees (collectively, the “Securities”) have not been, and will not be, registered under the U.S. Securities Act of 1933 (the “Securities Act”) and, subject to certain exceptions, may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons. The Notes will be offered and sold (i) within the United States to qualified institutional buyers (as defined in Rule 144A under the Securities Act (“Rule 144A”)) that are also qualified purchasers as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940 (the “Investment Company Act”) in reliance on the exemption from registration provided by Rule 144A (the “Rule 144A Notes”); and (ii) to certain persons in offshore transactions in reliance on Regulation S under the Securities Act (the “Regulation S Notes”). The Issuer has not been and will not be registered under the Investment Company Act. The Notes are being sold in reliance on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions, see “Subscription and Sale” and “Transfer Restrictions.”

Application has been made to list the Notes on the Luxembourg Stock Exchange. Application has also been made for the Rule 144A Notes to be designated as eligible for trading in the Private, Offering, Resale and Trading through Automated Linkages (“PORTAL”) System of the National Association of Securities Dealers, Inc.

Joint Lead Managers and Joint Bookrunners

ABN AMRO

MERRILL LYNCH & CO.

MORGAN STANLEY

This Supplemental Offering Circular is dated July 28, 2004.

The Issuer (in relation to itself and the Notes only), Gazprom and Gazexport (in relation to itself only), having made all reasonable enquiries, confirm that (i) this Offering Circular (the “Offering Circular”) contains all information with respect to Gazprom, Gazexport, Gazprom and its subsidiaries taken as a whole (the “Group”), the Loan, the Notes Guarantees and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Offering Circular relating to Gazprom, Gazexport and the Group are in every material particular true and accurate and not misleading; (iii) the opinions, expectations and intentions expressed in this Offering Circular with regard to Gazprom, Gazexport and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to Gazprom, Gazexport, the Group, the Loan, the Notes Guarantees or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading in any material respect; and (v) all reasonable enquires have been made by Gazprom to ascertain such facts and to verify the accuracy of all such information and statements, it being understood that each of (i) to (v) above shall not apply to the report included as Appendix B to this Offering Circular (the “Independent Consultant’s Report”) or to the information contained in this Offering Circular relating to the Gas Buyers (the “Gas Buyer Information”). The Issuer, Gazprom and Gazexport accept responsibility for such information accordingly.

This is the supplemental Offering Circular for the Series 1 Notes and should be read together with the offering circular relating to the Program dated July 28, 2004. However, as stated above, the Issuer, Gazprom and Gazexport accept responsibility for the contents of this supplemental Offering Circular in its own right in connection with the offering of the Series 1 Notes.

The Gas Buyer Information has been accurately reproduced and summarized from publicly available information, including, in particular, the latest annual reports and websites of such companies. The Issuer, Gazprom and Gazexport accept responsibility for the accurate reproduction or, as the case may be, summary of the Gas Buyer Information but do not accept any responsibility for the accuracy or completeness of such information. The Gas Buyer Information has not been prepared in connection with the offering of the Notes but has been derived from such public sources and none of the Issuer, Gazprom and Gazexport or the Managers (as defined under “Subscription and Sale” and “Transfer Restrictions”) has made any investigation or inquiry in connection with the offering of the Notes with respect to such public sources of information. The Independent Consultant’s Report has been prepared by Gas Strategies Ltd. in connection with the offering of the Notes and none of the Issuer, Gazprom, Gazexport or the Managers has made any investigation or inquiry with respect to, or accepts any responsibility for the accuracy or completeness of, the Independent Consultant’s Report. None of the Issuer, Gazprom, Gazexport or the Managers makes any representation that such publicly available sources of the Gas Buyer Information are accurate or complete. Each of the Issuer, Gazprom, Gazexport and the Managers disclaims any liability with respect to the accuracy or completeness of any such publicly available information or of the Gas Buyer Information or the Independent Consultant’s Report, and each purchaser of Notes will be deemed to acknowledge and consent to such disclaimer. Gasunie, Eni and Gas Strategies Ltd. have not participated in the preparation of this Offering Circular or in establishing the terms of the Notes. Consequently, there can be no assurance that all events occurring prior to the date hereof (including events that would affect the accuracy or completeness of the Gas Buyer Information) or, in the case of the Independent Consultant’s Report, after the date of such report, that would affect the trading price of the Notes have been publicly disclosed. Subsequent disclosure of any such events or the disclosure of or failure to disclose, material future events concerning Gasunie, Eni or with respect to the matters discussed in the Independent Consultant’s Report could affect the value of the Assigned Receivables and therefore the trading price of the Notes.

This Offering Circular contains summaries believed by Gazprom, Gazexport and the Issuer to be accurate with respect to certain provisions of certain documents, but reference is made to the actual documents for complete information with respect thereto, and all such summaries are qualified in their entirety by such reference.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, Gazprom, Gazexport or the Managers (as defined below) to subscribe for, or purchase, any Notes.

The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, Gazprom, Gazexport and the Managers to inform themselves about and to observe any such restrictions. None of the Issuer, Gazprom, Gazexport or the Managers has authorized any offer of Notes to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (the “Regulations”). Notes may not lawfully be offered or sold to persons in the United Kingdom

except in circumstances which do not result in an offer to the public in the United Kingdom within the meaning of the Regulations or are otherwise in compliance with all applicable provisions of the Regulations. For a description of certain further restrictions on offers and sales of Notes and distribution of this Offering Circular, see “Subscription and Sale” below.

The Regulation S Notes and the Rule 144A Notes will be offered and sold in denominations of U.S.\$1,000, U.S.\$10,000 and U.S.\$100,000, except that no Regulation S Note will be issued in an amount less than U.S.\$2,000 and no Rule 144A Note will be issued in an amount less than U.S.\$100,000. The Regulation S Notes will be evidenced by a global Note (the “Regulation S Global Note”), without interest coupons, which will be registered in the name of a nominee of, and deposited on or about July 29, 2004 (the “Closing Date”) with a common depository for Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”). The Rule 144A Notes will be evidenced by a global Note (the “Rule 144A Global Note” and, together with the Regulation S Global Note, the “Global Notes”), without interest coupons, which will be registered in the name of a nominee of, and deposited on or about the Closing Date with, a custodian for The Depository Trust Company (“DTC”). Ownership interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear, Clearstream, Luxembourg and their respective participants. Notes in definitive form will be issued only in limited circumstances.

No person is authorized to provide any information or to make any representation not contained in this Offering Circular and any information or representation not so contained must not be relied upon as having been authorized by or on behalf of the Issuer, Gazprom, Gazexport, ABN AMRO Trustees Limited (the “Trustee”), or the Managers. The delivery of this Offering Circular at any time does not imply that the information contained in it is correct as at any time subsequent to its date.

None of the Issuer, Gazprom, Gazexport, the Managers or any of their respective representatives is making any representation to any offeree or purchaser of the Notes offered hereby regarding the legality of an investment by such offeree or purchaser under appropriate legal investment or similar laws. Each investor should consult with his own advisors as to the legal, tax, business, financial and related aspects of purchase of the Notes.

The Issuer is a *société anonyme* incorporated for an unlimited duration under the laws of the Grand Duchy of Luxembourg (“Luxembourg”). The Issuer is not a subsidiary of Gazprom or Gazexport. The registered office of the Issuer is located at 46/A, av. JF Kennedy, L-1855 Luxembourg and the Issuer is registered with the *Registre de Commerce et des Sociétés à Luxembourg* (the Register of Commerce and Companies in Luxembourg) under number B-101526.

The Issuer was recently incorporated as a *société anonyme* under the laws of Luxembourg and, accordingly, has no operating history. The Issuer’s fiscal year will end on December 31 of each year. The Issuer’s financial statements will be prepared in accordance with accounting principles generally accepted in Luxembourg (“Luxembourg GAAP”). For further information on the Issuer, see “The Issuer.”

In connection with this issue, Merrill Lynch International (the “Stabilizing Manager”) (or any person acting for the Stabilizing Manager) may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilizing Manager or any agent of it to do this. Such stabilizing, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

THE NOTES, THE LOAN AND THE CORRESPONDING LOAN AND NOTES GUARANTEES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE MANAGERS AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT, AND NOTHING CONTAINED IN THIS DOCUMENT IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE. NONE OF THE MANAGERS ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT.

EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN THE NOTES MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF GAZPROM, GAZEXPORT AND THE ISSUER AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE, AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT, OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

ENFORCEABILITY OF JUDGMENTS

We, Gazprom, are an open joint-stock company incorporated under the laws of the Russian Federation; Gazexport is a limited liability company incorporated under the laws of the Russian Federation; and the Issuer is a *société anonyme* incorporated in Luxembourg. Most of our assets and those of Gazexport and the Issuer are currently located outside the United States and the United Kingdom. In addition, all of the directors and executive officers of each of Gazprom, Gazexport and the Issuer are residents of countries other than the United States and the United Kingdom. As a result, it may not be possible for you to:

- effect service of process within the United States or the United Kingdom upon any of our or Gazexport’s directors or executive officers named in this Offering Circular; or
- enforce, in the U.S. or English courts, judgments obtained in U.S. or English courts against any of Gazprom, Gazexport and the Issuer or any of the directors and executive officers of Gazprom, Gazexport and the Issuer named in this Offering Circular in any action, including actions under the civil liability provisions of the U.S. securities laws or any state or territory of the United States.

In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions located outside the United States, liabilities predicated upon the U.S. securities laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation will be recognized by courts in Russia only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered. No such treaty exists between the United States and the Russian Federation or the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments.

The Notes Guarantees and the Loan Agreement are each governed by English law and provide for disputes, controversies and causes of action brought by any party thereto against us (at its option) to be settled by arbitration in accordance with the Rules of the London Court of International Arbitration. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- the inexperience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favor of foreign investors;
- the inability of Russian courts to enforce such orders; and
- corruption.

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In this document, the terms “we,” “us,” “our” and “Gazprom Group” refer to OAO Gazprom and its subsidiaries, unless the context otherwise requires.

The term “western Europe” refers to the countries of Andorra, Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Greenland, Iceland, Republic of Ireland, Italy, Liechtenstein, Luxembourg, Malta, Monaco, The Netherlands, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, Turkey and the United Kingdom. The term “central and eastern Europe” refers to the countries of Bosnia, Bulgaria, Croatia, Czech Republic, Former Yugoslav Republic of Macedonia (“FYROM”), Hungary, Poland, Romania, Slovakia, Slovenia and Yugoslavia. The term “FSU” refers to the countries of Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

We measure our gas condensate and crude oil in metric tons. This document contains conversions of certain volumes from tons into barrels solely for the convenience of the reader. The conversion of volumes from metric tons to barrels varies at each of our fields due to different geological conditions. In this document, however, we use a conversion rate for all conversions of tons to barrels of one ton = 7.33 barrels. This document also contains conversions of cubic meters of natural gas and barrels of gas condensate and crude oil into barrels of oil equivalent solely for the convenience of the reader. In this document, we use a conversion rate for all conversions of one cubic meter of natural gas = 5.8858 barrels of oil equivalent, one barrel of gas condensate = one barrel of oil equivalent and one barrel of crude oil = one barrel of oil equivalent.

Information contained under the heading “Overview of the Russian Gas Industry and its Regulation” includes extracts from information and data publicly released by official and other sources, including Russian governmental agencies and bodies, and we accept responsibility for accurately reproducing such information and data but accept no further responsibility in respect of such information and data.

In this document, references to “Russian Roubles,” “roubles,” “RUR” and “RR” are to the lawful currency for the time being of the Russian Federation, references to “U.S. dollars,” “dollars,” “U.S.\$,” “USD” and “\$” are to the lawful currency for the time being of the United States of America and references to “€” and “euro” are to the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended by the Treaty on the European Union, signed at Maastricht on February 7, 1992. This document contains conversions of certain amounts into dollars at specified rates solely for the convenience of the reader. The U.S. dollar amounts have been translated from the RR amounts at the rate of RR29.45 = U.S.\$1.00, which is the rate published by the Central Bank of Russia on December 31, 2003. With effect from January 1, 1998, the rouble was redenominated, with one new rouble being set equal to one thousand old roubles. All references herein to amounts in “roubles” are references to new roubles, and any rouble amounts relating to the period prior to January 1, 1998 have been restated in new roubles. No representation is made that the rouble or dollar amounts referred to herein could have been or could be converted into roubles or dollars, as the case may be, at these rates, at any particular rate or at all.

FORWARD-LOOKING STATEMENTS

Certain statements in this document are not historical facts and are “forward-looking” within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). This document contains certain forward-looking statements in various locations, including, without limitation, under the headings “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Gazprom,” and in the Independent Consultant’s Report. We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of our plans, objectives or goals, including those related to products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Forward-looking statements that may be made by us from time to time (but that are not included in this document) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

Words such as “believes,” “anticipates,” “expects,” “estimates,” “intends” and “plans” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- inflation, interest rate and exchange rate fluctuations;
- the price of natural gas;
- the effects of, and changes in, the policy of the government of the Russian Federation (the “Government”);
- the effects of competition in the geographic and business areas in which we conduct operations;
- the effects of changes in laws, regulations, taxation or accounting standards or practices;
- our ability to increase market share for our products and control expenses;
- acquisitions or divestitures;
- technological changes;
- the effects of international political events on our business; and
- our success at managing the risks of the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made, and are not subject to any continuing obligations under the Listing Rules of the Luxembourg Stock Exchange. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

SUMMARY

The following summary contains basic information about the structure of the transaction, the parties involved, the principal agreements (the “Principal Agreements”) between these parties and the flow of funds under the Principal Agreements both in the normal course of business and upon the occurrence of certain events and should be read in conjunction with, and is qualified in its entirety by, the information set forth under “Description of Transaction Documents” and “Terms and Conditions of the Notes” appearing elsewhere in this Offering Circular.

The Transaction

The Issuer is issuing the Notes pursuant to a trust deed (the “Trust Deed”) to be entered into on or about July 29, 2004 (the “Closing Date”) between the Issuer and ABN AMRO Trustees Limited (the “Trustee”). It is expected that the Notes will be rated by Fitch Ratings Limited (“Fitch”) and Standard & Poor’s, a division of The McGraw-Hill Group of Companies (“S&P” and, together with Fitch, the “Rating Agencies”). The assets of the Issuer will consist primarily of its rights relating to loans to Gazprom on terms substantially similar to those governing the Loan that will be funded with the proceeds of the issue of each series of notes. Each such loan will be disbursed and repaid in the contractual currency thereof (expected to be U.S. dollars or euro), provided that in certain circumstances, the currency of repayment may be changed to Russian Roubles (“RR”). In such event, RR amounts payable under such loan will be indexed to the original contractual currency.

Gazexport acts as Gazprom’s commission agent with respect to exports of natural gas. Pursuant to export agreements entered into between (a) Gazexport and Gasunie and (b) Gazexport and Eni (Eni and Gasunie being the “Gas Buyers”) (together, the “Gas Sales Contracts”), Gazprom and Gazexport have committed to deliver natural gas to the Gas Buyers. Pursuant to the FX, Assignments, Accounts and Fiduciary Agreements (together, the “FAAFAs”), Gazprom and Gazexport will assign their respective rights to the receivables (the “Assigned Receivables”) generated under the Gas Sales Contracts to ABN AMRO Bank (Luxembourg) S.A. acting as fiduciary (the “Fiduciary”) (for the benefit of the Issuer), as security for Gazprom’s RR payment obligations to the Issuer under the Loan and Gazexport’s liability under the Loan Guarantee after a Rouble Repayment Election (as defined in “The Offering—The Loan Agreement”). The Trustee will be entitled to make the Rouble Repayment Election following a Loan Event of Default or a Retention Event (as defined in “The Offering—The Loan Agreement”). Gazprom may add or replace Gas Buyers and Gas Sales Contracts, subject to rating agency reaffirmation and certain other requirements described further herein (see “Description of the Transaction Documents—The Loan Agreement”). In the event of such addition or replacement of Gas Buyers and/or Gas Sales Contracts, the Stock Exchange will be notified and notices to holders of Notes will be published as described in “Terms and Condition of the Notes.”

Each series of notes will be guaranteed by each of Gazprom and Gazexport under the Notes Guarantees. Upon an Event of Default under the terms of the Notes and the election by the Trustee, the Assigned Receivables will also be held by the Fiduciary, for the benefit of the Trustee, as security for the obligations of Gazprom and Gazexport under the Notes Guarantees.

The Issuer may issue Further Notes to fund further loans (“Further Loans”) to Gazprom. Any Further Notes which may be issued and any Further Loan which may be made will be documented by new agreements on substantially similar terms to those executed in respect of the Notes and the Loan, subject to a Rating Agency Affirmation (see “Description of The Transaction Documents—The Loan Agreement”). The Further Notes will benefit from the arrangements regarding the Gas Sales Contracts rateably with the Notes. This Offering Circular relates only to the first issue of Notes described herein.

Gazprom

We are the world’s largest natural gas company, and the world’s largest publicly-traded hydrocarbons company, in terms of reserves, production and transportation. We supply substantially all of the natural gas consumed in Russia, a significant proportion of the volume of natural gas consumed in six FSU countries to which we export our natural gas—Belarus, Estonia, Latvia, Lithuania, Moldova and Ukraine—and approximately 25% of the volume of natural gas consumed in Europe, making us the largest supplier of natural gas to Europe. For the year ended December 31, 2003, our net sales were RR819,753 million (U.S.\$27.8 billion) and our operating profit was RR226,338 million (U.S.\$7.7 billion). As of December 31, 2003, we had total assets of RR2,764,087 million (U.S.\$93.9 billion) and total shareholders’ equity of RR1,855,130 million (U.S.\$63.0 billion).

Gazexport

Gazexport, a wholly-owned subsidiary of Gazprom, is responsible, as commission agent, for exporting natural gas on behalf of Gazprom to European and certain FSU export markets. Gazexport is currently the world's largest natural gas exporter by volume, and in 2003 sold 132.9 bcm of natural gas on behalf of Gazprom to European customers (128.6 bcm in 2002).

The Issuer

Gazprom International S.A. (the "Issuer") was incorporated as a *société anonyme* on June 28, 2004 (for an unlimited duration) with limited liability under the laws of the Grand Duchy of Luxembourg and, accordingly, has no operating history. Its registered office is located at 46/A, av. JF Kennedy, L-1855 Luxembourg. The Issuer's subscribed share capital amounts to €31,000 divided into 310 registered ordinary shares with a par value of €100 each. All of the shares are fully paid up and are owned by two Dutch charitable trusts ("*stichting*"). The Issuer is not a subsidiary of Gazprom or Gazexport. The business of the Issuer is limited by covenants given in the Trust Deed to the Trustee on behalf of the Noteholders to the issue of the Notes and Further Notes (pursuant to Condition 16 of the Terms and Conditions of the Notes) for the purpose of financing the Loan and Further Loans to Gazprom, the granting of such loans to Gazprom and other associated business as set out in further detail under "The Issuer."

The Gas Buyers

The information presented in this section in relation to the Gas Buyers has been extracted and summarized from publicly available sources.

Gasunie

N.V. Nederlandse Gasunie ("Gasunie") is a Dutch gas trading and transmission company which owns over 11,000 kilometres of Dutch gas pipelines. Its primary activities are buying, carrying and selling natural gas destined for the Dutch and export markets. For the year ended December 31, 2003, Gasunie had a net profit of €36 million from total revenues of €11.3 billion, generated by total sales of 77.0 bcm (export sales of 43.0 bcm and domestic sales of 34.0 bcm). Gasunie's capital expenditure for such period amounted to €97 million. Gasunie's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in The Netherlands.

Eni

Eni S.p.A. ("Eni"), is an Italian company which, with its consolidated subsidiaries (together, the "Eni Group"), is engaged in oil and gas, electricity generation, petrochemicals, oilfield services and engineering industries. The Eni Group operates in about 70 countries and had more than 76,000 employees as of December 31, 2003. For the year ended December 31, 2003, Eni had net income of €5.6 billion from net sales from operations of €51.5 billion. Eni's capital expenditure for such period amounted to €8.8 billion. Eni's financial statements are prepared in accordance with Italian GAAP, as amended as described in such statements.

The Gas Sales Contracts

Summarized descriptions of the Eni Gas Sales Contract and the Gasunie Gas Sales Contract are contained in this Offering Circular under "Summary of Gas Supply Agreements."

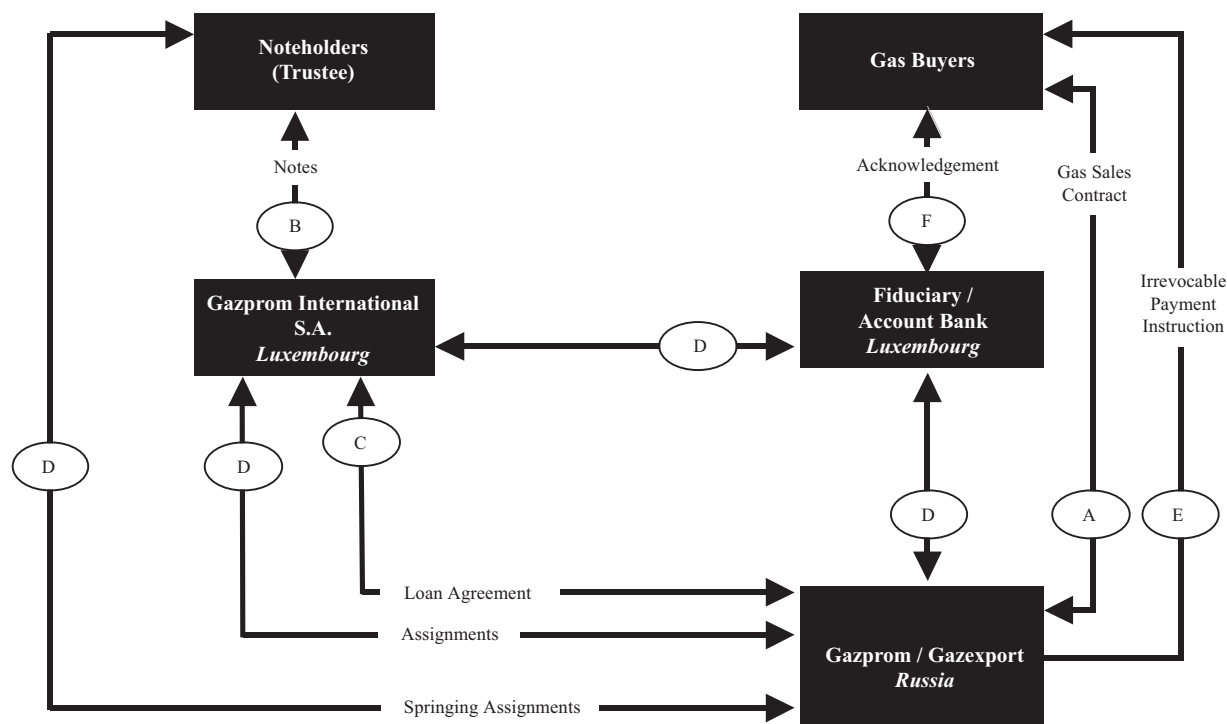
The European Gas Market

Information about the European gas market is contained under the heading "Gazprom—Marketing" in this Offering Circular. This Offering Circular also contains an Independent Consultant's Report about the European gas market prepared by Gas Strategies Ltd. ("Gas Strategies"), an independent consultant, which has been included as Appendix B. Gas Strategies was engaged to analyze the current and future dynamics of the European gas market. In particular Gas Strategies was asked to concentrate on the markets of Italy and The Netherlands where the initial Gas Buyers are based.

The Independent Consultant's Report places the gas markets of Italy and the Netherlands in the context of gas supply and demand in a wider European area and identifies liberalization, carbon emissions and security of supply concerns as major underlying drivers. It then provides an analysis of the supply and demand dynamics in the markets of Italy and The Netherlands before placing these in the context of an overview of supply and demand in that European area. The Independent Consultant's Report also reviews the pricing conventions currently adopted for European gas under long-term supply contracts and describes how border gas prices might develop in the longer term. Gas Strategies' analysis is based to a large extent on information available from public sources.

Principal Agreements

The Principal Agreements for the transaction are indicated by capital letters in the following schematic diagram outlining the transaction structure:



A – Gas Sales Contracts

Gazexport, as commission agent for Gazprom, sells natural gas under the Gas Sales Contracts to the Gas Buyers. The initial Gas Buyers are Gasunie and Eni. Gazprom may add or replace Gas Buyers and Gas Sales Contracts, subject to rating agency reaffirmation and certain other requirements described further herein (see “Description of the Transaction Documents—The Loan Agreement”).

B – The Notes

The Issuer will issue the Notes under the Trust Deed, pursuant to which the Issuer will also enter into certain restrictive covenants as to its corporate existence and other business activities. ABN AMRO Bank (Luxembourg) S.A. will act as Fiduciary for the benefit of the Issuer and the Trustee with respect to the security and bank account arrangements described below. Gazprom and Gazexport will each guarantee fully and unconditionally to the Trustee the payment of principal and interest under the Notes. The Notes, the Trust Deed and the Notes Guarantees will be governed by English law.

C – Loan Agreement

The assets of the Issuer will consist primarily of its rights relating to loans to Gazprom that will be funded with the proceeds of the issue of the Notes and any Further Notes. The Loan corresponding to the Notes now being issued will be documented pursuant to the Loan Agreement with Gazprom on terms and conditions closely related to the Notes.

In the event that a Loan Event of Default or Retention Event (as defined below) has occurred, the Trustee may irrevocably elect to change the currency of repayment of Gazprom’s payment obligations under the Loan Agreement to RR (indexed to the original currency of the Loan) (the “Rouble Repayment Election”). Thereafter, all such payments by Gazprom under the Loan Agreement will be made in RR. The Loan Agreement will contain certain covenants of Gazprom, including covenants with respect to debt service coverage ratios and as to contract volume tests (which measure the delivery performance of Gazexport with reference to the ordered quantities of gas under the Gas Sales Contracts).

The Issuer will also enter into a guarantee agreement with Gazexport, under which Gazexport will guarantee fully and unconditionally Gazprom’s obligations under the Loan Agreement.

The Loan Agreement and the Loan Guarantee will be governed by English law.

D – FX, Assignments, Accounts and Fiduciary Agreements (“FAAFAs”)

Gazprom and Gazexport will each enter into a FAAFA with the Fiduciary, the Issuer, the Accounts Bank, the FX Bank and the Trustee on or about July 29, 2004. The FAAFAs will document the Assignments and the Springing Assignments (each as defined below) by Gazprom and Gazexport and will regulate the ranking of such security and the allocation of any proceeds realised from the enforcement of such security by the Fiduciary.

Gazprom and Gazexport will each assign their rights to the Assigned Receivables as security for the RR payment obligations of Gazprom to the Issuer that would arise under the Loan Agreement, and Gazexport’s payment obligations that would arise under the Loan Guarantee if the Rouble Repayment Election were exercised, and will each grant a Springing Assignment (see “The Offering—The Notes—Enforcement of the Springing Assignments”), to secure conditionally Gazprom’s and Gazexport’s obligations under the Notes Guarantees.

In addition, under the FAAFAs, the Fiduciary agrees, among other things, to open a U.S. dollar account for the receipt of proceeds under the Gas Sales Contracts and the making of certain specified payments (the “Collection Account”) and a U.S. dollar account in the name of the Fiduciary for the maintenance of the debt service reserve under the Notes (the “Debt Service Reserve Account”) each held with ABN AMRO Bank (Luxembourg) S.A. (in such capacity the “Accounts Bank”).

The FAAFAs also contain certain foreign exchange arrangements pursuant to which Gazprom and the Issuer have agreed with ABN AMRO Bank (Luxembourg) S.A. (in such capacity, the “FX Bank”) the terms on which they may make certain foreign exchange transactions (primarily to exchange RR proceeds under the Loan to the currency of the Notes to service the Notes) following a Rouble Repayment Election. See “Description of the Transaction Documents.”

The FAAFAs, including the Assignments and the Springing Assignments, will be governed by Luxembourg law, save that the foreign exchange arrangements set out in the Gazprom FAAFA will be governed by English law.

E – Irrevocable Payment Instruction

Gazprom and Gazexport will each deliver an irrevocable payment instruction to the Gas Buyers (each an “Irrevocable Payment Instruction”). Under the Irrevocable Payment Instructions, Gazprom and Gazexport instruct the Gas Buyers to make payments under the Gas Sales Contract exclusively to the Collection Account, subject to the set-off rights described under “F” below.

F – Acknowledgement of the Assignments by the Gas Buyers

Each Gas Buyer will acknowledge to Gazprom, Gazexport, the Issuer and the Fiduciary (the “Acknowledgement”):

- that it has received the Irrevocable Payment Instruction; and
- the existence of the Assignments and the Springing Assignments

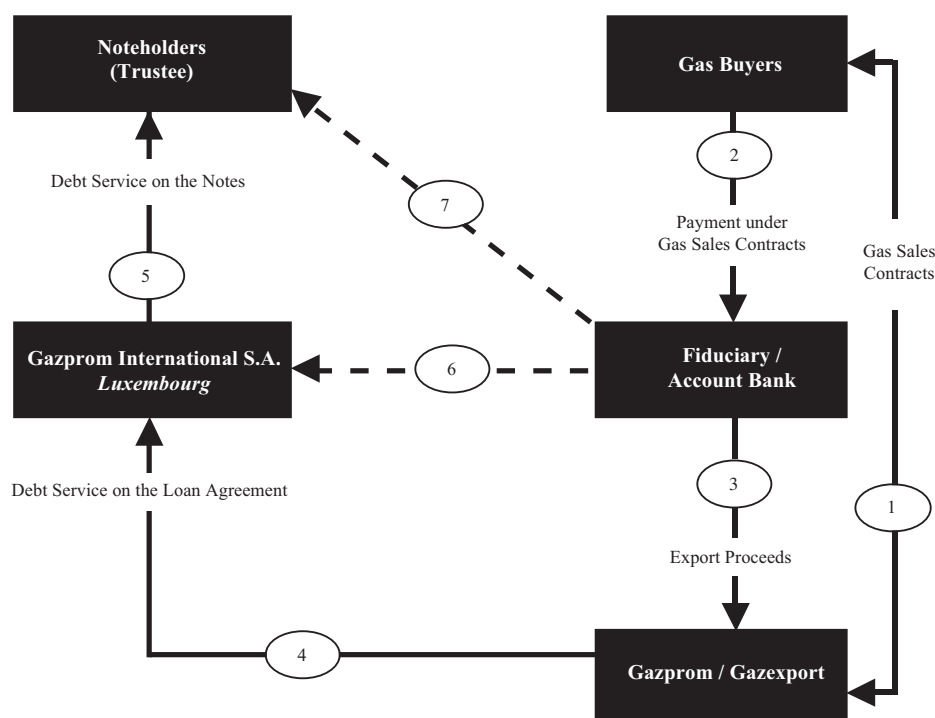
and will agree to pay receivables under the relevant Gas Sales Contract to the Collection Account, subject to the right of Gasunie to set-off up to 25% of any invoice where it is owed unpaid liabilities by Gazprom, Gazexport or their affiliates or successors.

Each of Gazprom and Gazexport has represented and warranted that no such unpaid liabilities exist as at the date of this Offering Circular and have undertaken to notify the Issuer, the Trustee and the Rating Agencies should a contract potentially giving rise to such right of set-off be entered into during the life of the Notes.

CBR License

Gazprom and Gazexport have obtained a license under Russian exchange control legislation from the Russian Central Bank, dated June 8, 2004, which regulates and provides for Gazprom’s and Gazexport’s currency operations under the contracts documenting the transaction described in this Offering Circular and the non-repatriation of the Assigned Receivables into Russia in the events specified in such documents.

Flow of Funds



Prior to the Closing Date, the Debt Service Reserve Account is funded to the required level.

- 1 Gazprom delivers natural gas to the Gas Buyers under the Gas Sales Contracts.
- 2 The Gas Buyers pay in U.S. dollars to the Collection Account maintained with the Accounts Bank.
- 3 So long as there is no (i) Retention Event or (ii) Holding Event (as defined in “The Offering—The Loan Agreement”), the Accounts Bank transfers amounts received in the Collection Account to Gazexport’s transit account in Russia.
- 4 One day prior to each debt service payment date, Gazprom transfers the scheduled debt service amount under the Loan Agreement to the Issuer’s Debt Service Account held with the Principal Paying and Transfer Agent (the “Debt Service Account”).
- 5 The Issuer makes a payment for debt service to the Noteholders.
- 6 If a Loan Event of Default has occurred and the Trustee has made the Rouble Repayment Election, and enforced the Assigned Receivables, the Fiduciary will direct funds from the Collection Account to meet sums due under the Loan.
- 7 If there is a Notes Event of Default and the Trustee has enforced the Springing Assignments where the Springing Assignments have priority over Other Creditors, the Fiduciary will direct funds from the Collection Account to meet sums due under the Loan or the Notes as directed by the Trustee.

On the occurrence of a Retention Event or Holding Event, which includes a Loan Event of Default, funds are retained in the Collection Account by the Fiduciary and are not transferred to Gazexport’s transit account as described in “The Offering—The Loan” below.

THE OFFERING

The following summary contains basic information about the Notes, the Loan, the Notes Guarantees, the Loan Guarantee and the related account and security arrangements and should be read in conjunction with, and is qualified in its entirety by, the information set forth under “Terms and Conditions of the Notes,” and “Description of Transaction Documents” appearing elsewhere in this Offering Circular. For a discussion of legal risks associated with these matters, see “Risk Factors.”

The Notes

Issuer	Gazprom International S.A.
Guarantors	Open Joint Stock Company Gazprom and Gazexport Ltd.
Joint Lead Managers	ABN AMRO Bank N.V., Merrill Lynch International and Morgan Stanley & Co. International Limited
Notes Issued.....	U.S.\$1,250,000,000 aggregate principal amount of 7.201% Structured Export Notes due February 1, 2020
Trustee	ABN AMRO Trustees Limited
Principal Paying and Transfer Agent....	ABN AMRO Bank N.V. (London Branch)
Registrar	LaSalle Bank N.A.
Paying and Transfer Agents	ABN AMRO Bank (Luxembourg) S.A. and LaSalle Bank N.A.
Accounts Bank	ABN AMRO Bank (Luxembourg) S.A.
Fiduciary.....	ABN AMRO Bank (Luxembourg) S.A.
Scheduled Payment Dates.....	The Notes will bear interest from July 29, 2004 payable semi-annually in arrear on each February 1 and August 1 (each a “Payment Date”). There will be a long first coupon and the first payment will be made on February 1, 2005 in the aggregate amount of U.S.\$45,506,319.44. Principal will be payable as set out in “Terms and Condition of the Notes.”
Status of the Notes	The Notes will constitute direct, unconditional and unsecured obligations of the Issuer and shall at all times rank <i>pari passu</i> with all other outstanding, unsubordinated and unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Notes Guarantees	The due payment of principal, interest and all other amounts payable by the Issuer in respect of the Notes or under the Trust Deed has the benefit of irrevocable and unconditional guarantees from Gazprom and Gazexport, each pursuant to a deed of guarantee.
Status of the Notes Guarantees	The obligations of Gazprom and Gazexport pursuant to the Notes Guarantees shall at all times rank at least <i>pari passu</i> with all present and future outstanding unsecured and unsubordinated obligations of Gazprom or, as the case may be, Gazexport, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Conditional Security for the Notes

Guarantees Gazprom's and Gazexport's obligations under the Notes Guarantees will have the benefit of conditional Springing Assignments of their rights to the Assigned Receivables generated under Gas Sale Contracts entered into between Gazexport and the Gas Buyers.

Enforcement of the Springing

Assignments The Springing Assignments will only come into force after a Notes Event of Default has occurred and is continuing or a Special Event has occurred and the Trustee has given the relevant notices (see "Terms and Conditions of the Notes—Notes Event of Default").

Special Event A "Special Event" means the service on the Fiduciary by bailiff's deed of an attachment relating to an unpaid debt which attachment upon validation, would constitute the creditor an Other Creditor, provided that such claim has not been discharged within 10 days of such service, and provided that the unpaid debt in respect of which attachment is sought is or would be, when aggregated with the unpaid debts of all other persons who then are, or having served such a deed will in due course become, Other Creditors, U.S.\$50,000,000 or more.

Irrevocable Instructions Gazprom and Gazexport will each irrevocably instruct each Gas Buyer to make all payments of the Assigned Receivables to the Collection Account. Each Gas Buyer will acknowledge the Springing Assignments and will undertake to pay all Assigned Receivables under the relevant Gas Sale Contract into the Collection Account. See "The Loan—Collection Account" below.

Debt Service Reserve Account The Debt Service Reserve Account will be funded prior to closing. The balance required to be maintained on the Debt Service Reserve Account will be at least equal to:

- (a) during the period prior to February 1, 2007 (the "Amortization Grace Period"), the amount of debt service (including costs and expenses) that will become due on the first Payment Date on the Notes on which principal is payable; and
- (b) after the Amortization Grace Period, the largest amount of debt service (including costs and expenses) that will become due on any Payment Date on the Notes, (such amount being the "Security Balance").

If on any day the Security Balance is greater than the minimum required the surplus may be withdrawn at Gazprom's option. See "The Loan—Maintenance of the Debt Service Revenue Account."

Assignment of Rights Pursuant to the Trust Deed, the Issuer will assign certain of its rights under the Loan Agreement, the Loan Guarantee and the FAAFAs (such as the right to make the Rouble Repayment Election, and to determine whether there has been a Loan Event of Default, but not the Excluded Rights (as defined in the Trust Deed)), to the Trustee upon the closing of the offering of the Notes, in each case to allow the Trustee to act on behalf of Noteholders in relation thereto.

Notes Events of Default	<p>If any of the following events (“Notes Events of Default”) occurs and is continuing, the Trustee at its discretion may, and if so requested by holders of at least 25% in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (provided the Trustee shall have been secured and/or indemnified to its satisfaction), give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their Principal Amount Outstanding together with accrued interest:</p> <ul style="list-style-type: none"> (a) The Issuer fails to pay within three Business Days any amount payable in respect of the Notes or any Additional Structured Export Notes issued by the Issuer as and when such amount becomes payable in the currency and in the manner specified in the terms and conditions of the relevant Notes, provided that such default will not be a Note Event of Default if (i) it occurs by reason only of administrative or technical difficulties affecting the transfer of the funds due from the Issuer, (ii) the Issuer issued the appropriate transfer and payment instructions in sufficient time to permit the transfer and payment of the amount due to be made on its due date and (iii) the Principal Paying and Transfer Agent receives from the Issuer that amount within six Business Days after the due date for payment; (b) The Issuer becomes insolvent or bankrupt or is unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or (in the opinion of the Trustee) a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any such debts or a moratorium is agreed or declared in respect of or affecting all or (in the opinion of the Trustee) a material part of the debts of the Issuer or an order is made or an effective resolution is passed for the winding up or dissolution of the Issuer or the Issuer becomes subject to any insolvency, bankruptcy, <i>concordat préventif de faillite</i>, moratorium, controlled management (<i>gestion contrôlée</i>), suspension of payments (<i>sursis de paiement</i>), general settlement with creditors, composition, liquidation, reorganisation and any other similar legal proceedings affecting the Issuer or a <i>commissaire à la gestion contrôlée</i>, a <i>liquidateur</i>, a <i>commissaire</i>, a <i>curateur</i>, an <i>administrateur</i> or any similar officer is appointed as a consequence of the financial difficulties affecting the Issuer; (c) The Issuer or the Notes Guarantors do not perform or comply with any one or more of their respective other obligations under the Notes, the Notes Guarantees, the Assigned Contracts or the Trust Deed; (d) Any term of the Notes, the Notes Guarantees, the Assigned Contracts or the Trust Deed becomes illegal or unenforceable, or any government approval required in connection therewith is revoked; (e) Any term of the Notes, the Notes Guarantees, the Assigned Contracts or the Trust Deed is repudiated by the Notes Guarantors;
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	<p>(f) Either Notes Guarantee is not in full force and effect; or</p> <p>(g) Any Event of Default under the Loan Agreement occurs and the Issuer or Trustee pursuant to the terms of the Assignment of Rights accelerates the Loan.</p>
Form	The Notes will be issued in registered form. The Notes will be in denominations in aggregate principal amount of U.S.\$1,000 U.S.\$10,000 and U.S.\$100,000, provided that Regulation S Notes shall be held in amounts of not less than U.S.\$2,000 and Rule 144A Notes shall be held in amounts of not less than U.S.\$100,000, and will be represented by global notes. The global notes will be exchangeable for Notes in individual form in the limited circumstances specified in the global notes.
Issuer's Restrictions and Covenants.....	<p>The Issuer will make certain covenants to the Trustee on behalf of Noteholders, including:</p> <ol style="list-style-type: none"> 1. <i>Existence.</i> The Issuer will preserve, renew and keep in full force and effect its corporate existence. 2. <i>Other business.</i> The Issuer will not undertake any business, or acquire any assets or liabilities, except in connection with the Transaction Documents.
Optional Redemption.....	The Issuer is required to redeem the Notes (and pay a Make Whole Premium, as defined in the Terms and Conditions of the Notes) to the extent Gazprom prepays the Loan (and pays a Make Whole Premium).
Withholding Tax	All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or in respect of the Notes Guarantees by or on behalf of the Guarantors will be made free and clear of all taxes, duties, fees or other charges of the Grand Duchy of Luxembourg (in the case of the Issuer) or the Russian Federation (in the case of the Guarantors), other than as required by law. If any such taxes, duties, fees or other charges are payable, the sum payable by the Issuer or the Guarantors as the case may be will be required (subject to certain exceptions) to be increased to the extent necessary to ensure that the Noteholders receive the net sum which they would have received free from any liability in respect of any such deduction or withholding had no such deduction or withholding been made or required to be made.
Transfer Restrictions.....	Neither the Notes, nor the Loan, nor the Loan or Notes Guarantees will be registered under the Securities Act. Investors may only offer or sell the Notes in transactions exempt from or not subject to the registration requirements of the Securities Act and to persons who are qualified purchasers as defined in Section 2(a)(51) of the Investment Company Act. See "Transfer Restrictions."
Ratings	It is expected that the Notes will be rated BBB– by Fitch and BBB– by S&P. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Program Size	In addition to any other restriction on the issue of Further Notes, the Issuer may not, so long as the relevant Gas Sales Contracts are the ENI Gas Sales Contract and the Gasunie Gas Sales Contract, issue Further Notes such that the amount then outstanding under the Program would be more than U.S.\$3,600,000,000 in principal amount of Notes under the Program or such lesser amount as is necessary to ensure Rating Agency Affirmation. Such amount may be increased subject to prior confirmation from the Rating Agencies that Notes under the Program would be rated at the higher of the initial rating of the Notes or the then outstanding rating.
Listing	The Issuer, Gazprom and Gazexport have applied to list the Notes on the Luxembourg Stock Exchange.
Governing Law	The Notes, the Trust Deed and the Notes Guarantees will be governed by English law. The provisions of Articles 86 to 94-8 of the Luxembourg law on commercial companies of August 10, 1915, as amended, will be excluded. The FAAFAs, except for the F/X provisions thereof which shall be governed by English law, will be governed by Luxembourg law.

The Loan Agreement

Issuer (as Lender)	Gazprom International S.A.
Borrower	Gazprom.
Loan Guarantee	Gazexport will irrevocably and unconditionally guarantee the Loan pursuant to the Loan Guarantee.
Principal Amount	To match the Notes.
Amortization	To match the Notes.
Interest Rate	To match the Notes.
Payment and Rouble Repayment Election	The Loan will be disbursed and repayable in the currency of the corresponding Notes (the “Original Currency”). If a Retention Event or Loan Event of Default has occurred and is continuing, the Trustee may, at its option, irrevocably require that the currency of the Loan, and repayments thereunder, be changed to RR (indexed to the Original Currency). Thereafter, all payments by Gazprom under the Loan shall be made in RR. The indexation to the Original Currency will be calculated as described under “—F/X Arrangements” below.
Optional Prepayment	<p>The Loan may be prepaid in whole or in part at any time prior to the Final Maturity Date at Gazprom’s option together with accrued and unpaid interest plus a Make Whole Premium (as defined in the Loan Agreement).</p> <p>No Make Whole Premium is payable if Gazprom is required to pay additional amounts on account of Russian or Luxembourg taxes or certain costs of the Issuer incurred pursuant to the Loan Agreement or upon an event of illegality regarding the Loan Agreement.</p> <p>Gazprom will not have the right to prepay the Loan if it has become repayable in RR.</p>
Mandatory Repayments	In the event that it becomes unlawful for the Issuer to fund the Loan or allow the Loan to remain outstanding under the Loan Agreement or allow the Notes to remain outstanding, Gazprom may be required by the Issuer to repay such Loan in full.
Contract Preservation Covenants	Gazprom and/or Gazexport will agree not to (i) amend, modify, or waive any right under or make any other change to any term of any Gas Sales Contract (other than immaterial amendments and waivers relating to any such agreement which relate to minor administrative or technical matters or are required by the parties thereto to improve the practical performance of their obligations thereunder if such amendments or waivers do not in any manner relate to the financial obligations of the parties under such agreement each a “Minor Amendment,” provided that such Minor Amendment is notified in advance pursuant to the Loan Agreement), (ii) terminate, suspend, revoke, cancel, rescind or

repudiate any Gas Sales Contract, (iii) set off any amount claimed due to it under any Gas Sales Contract or (iv) consent to any assignment or other transfer of any Gas Buyer's interests in the relevant Gas Sales Contract (excluding any transfer in connection with the proposed Gasunie reorganization), unless the Rating Agencies have confirmed in advance in writing that, after any of the events specified above, the ratings assigned by the Rating Agencies to the Notes would not be withdrawn or lowered below the then current rating of the Notes and certain further conditions have been met, including in the case of a substitution of a new gas buyer, such gas buyer being rated at least BBB+ by each Rating Agency and all appropriate consents having been obtained.

Security If the Rouble Repayment Election is exercised, Gazprom's RR payment obligations under the Loan, and Gazexport's obligations in respect thereof under the Loan Guarantee will be secured by the Assignments in favor of the Fiduciary (for the benefit of the Issuer) by Gazprom and Gazexport of the Assigned Receivables.

Pursuant to the relevant Irrevocable Payment Instruction, Gazprom and Gazexport will each irrevocably instruct each Gas Buyer to make all payments of the Assigned Receivables to the Collection Account, subject to certain set-off rights described therein. Pursuant to the relevant Acknowledgement, each Gas Buyer will acknowledge the relevant Assignments and will undertake to pay all receivables under the relevant Gas Sales Contract into the Collection Account.

Contract Volume Test ("CVT") Contract Volume Tests ("CVT") setting out certain requirements as to the volumes of natural gas to be delivered under the Gas Sales Contracts, as described further in the Loan Agreement, will be calculated on a monthly basis. Failure to pass the CVT will, in certain circumstances, constitute a Retention Event, as set out below. See "Description of the Transaction Documents—The Loan Agreement."

Debt Service Coverage Ratio ("DSCR"). The DSCR shall be calculated each month and will be equal to the ratio (expressed as a percentage) of the Annual Gas Sales Contract Payments received in the most recent twelve months divided by the Annual Debt Service (each as defined under "Description of Transaction Documents—Description of the Loan Agreement"). Failure to meet the DSCR will, in certain circumstances, constitute a Retention Event, as set out below.

Six Monthly Ratio The Six Monthly Ratio shall be calculated on each Payment Date and will be equal to the ratio (expressed as a percentage) of the Semi-Annual Gas Sales Contract Payments received in the period since the last Payment Date divided by the Semi-Annual Debt Service (as defined under "Description of the Transaction Documents—The Loan Agreement"). Failure to meet the Six Monthly Ratio will constitute a Retention Event, as set out below.

Retention Event	<p>If:</p> <ul style="list-style-type: none"> (i) the DSCR falls below 140%; or (ii) the DSCR falls below 175% and any CVT is not met; or (iii) any CVT is not met for 3 consecutive months; or (iv) the Six Monthly Ratio falls below 110% on any Payment Date, <p>this shall constitute a “Retention Event.” Upon the occurrence of a Retention Event, the Fiduciary will retain the Assigned Receivables in the Collection Account and the Trustee will be entitled to make the Rouble Repayment Election. If the Retention Event is not cured within 180 days, this shall constitute a Loan Event of Default.</p>
Holding Event	<p>If on any day a Potential Loan Event of Default, a Loan Event of Default, a Loan Payment Suspension Event, a Special Event or a Note Event of Default has occurred and is continuing (if the Springing Assignments have been implemented), this shall constitute a “Holding Event.”</p>
Collection Account	<p>Gazprom, Gazexport, the Issuer and the Trustee will, pursuant to the FAAFAs, instruct the Fiduciary to open a U.S. dollar-denominated Collection Account in the name of the Fiduciary with the Accounts Bank.</p>
Operation of Collection Account Prior to a Retention Event, Holding Event or Enforcement.	<p>Prior to service of a notice of enforcement in respect of the Assignments or the Springing Assignments; and provided that (i) no Retention Event, Special Event or Holding Event has occurred and is continuing and (ii) the Debt Service Reserve Account is credited with an amount equal to or greater than the Security Balance, the Fiduciary shall on any such day transfer all sums standing to the credit of the Collection Account to a Gazexport transit account, and Gazexport shall not be restricted in its use of such sums.</p>
Operation of the Collection Account Following a Retention Event or a Holding Event	<p>Prior to enforcement and following a Retention Event or a Holding Event, the Fiduciary shall retain all sums standing to the credit of the Collection Account:</p> <ul style="list-style-type: none"> (a) in the case of a Retention Event, until the earlier of (i) its cure, and (ii) the date falling 180 calendar days after its occurrence (on which date a Loan Event of Default shall occur); (b) in the case of a Holding Event, until the earlier of (i) its cure, and (ii) the amount standing to the credit of the Collection Account reaching an amount equal to the principal amount outstanding under the Loan Agreement together with interest accrued thereon and costs and expenses due in connection therewith (the “Holding Event Cap”), <p>provided always that amounts may, at the option of Gazprom, be transferred to the Debt Service Reserve Account.</p>

Operation of Collection Account

Following Notice of Enforcement

On any day following the giving of a notice of enforcement by the Trustee of the Assignments pursuant to the FAAFAs, the Fiduciary shall apply any and all sums standing to the credit of the Collection Account in or towards making the following payments:

- First, to the Issuer, in or towards satisfaction of the Loan Secured Liabilities (as defined below); and
- Second, the surplus (if any) to Gazexport or any other person entitled thereto or any other person designated by Gazprom and Gazexport.

On any day following the giving of a notice of enforcement of the Springing Assignments by the Trustee pursuant to the FAAFAs, the Fiduciary shall apply any sums standing to the credit of the Collection Account in or towards making the following payments where the Springing Assignments have given the Trustee a first ranking priority:

- First, to the Issuer, in or towards satisfaction of the Loan Secured Liabilities;
- Second, to the Trustee in or towards payment of the Notes Guarantee Secured Liabilities (as defined below); and
- Third, the surplus (if any) to Gazexport or any other person entitled thereto or any other person designated by Gazprom and Gazexport,

subject to the Issuer's and the Trustee's ability jointly to instruct the Fiduciary as to the relative ranking of these claims if there are no Other Creditors ranking ahead of claims in respect of Gazprom Notes Secured Liabilities.

For the order of payments where the Trustee does not have a first ranking priority, and the circumstances in which the Trustee may not have a first ranking priority see "Risk Factors—Risks Associated with convertibility of RR" and "Description of Transaction Documents—Description of the Fiduciary Arrangements."

If following notice in respect of the Assignments as set out above and the exercise of the Rouble Repayment Election, the Loan has been accelerated and a RR–U.S. dollar Rate of Exchange obtained and subsequently, in seeking to apply the Assigned Receivables in discharge of Rouble sums due in respect of the Loan, the Fiduciary and the Trustee, having made reasonable efforts so to do, are unable to arrange the conversion of U.S. dollars into Roubles, then, provided that Gazprom has failed to discharge such Rouble payment obligations, the Trustee may direct the Accounts Bank to hold the U.S. dollars standing to the credit of the Collection Account on behalf of the Issuer (as lender under the Loan) in satisfaction of the Rouble sums due under the Loan applying the last applicable U.S. dollar–RR Rate of Exchange.

Operation of Debt Service Reserve

Account.

Funds standing to the credit of the Debt Service Reserve Account will be transferred to the Issuer's Debt Service Account with the Principal Paying Agent on any Payment

Date on which there are insufficient funds in the Issuer's Debt Service Account to make the payments, in full, due from the Issuer under the Notes (provided that the Fiduciary has not received notice from the Trustee of a Retention Event or a Holding Event).

Maintenance of Debt Service Reserve Account.....

The Issuer and Gazprom shall procure that a credit balance in U.S. dollars on the Debt Service Reserve Account is maintained in an amount equal to or greater than the Security Balance. See "The Notes—Debt Service Reserve Account."

F/X Arrangements

Following a Rouble Repayment Election, Gazprom may, pursuant to the Gazprom FAAFA, elect either (i) to enter into a trade with ABN AMRO Bank (Luxembourg) S.A. as the F/X Bank (the "F/X Bank") to convert U.S. dollars standing to the credit of the Collection Account into RR or (ii) to deliver RR from another source, in each case in order to satisfy its obligations under the Loan Agreement. If Gazprom elects to enter into a trade with the F/X Bank, such trade will trigger an equivalent transaction between the Issuer and the F/X Bank converting the RR back into U.S. dollars (at the same rate of exchange used for the initial transaction) to enable the Issuer to satisfy its obligations under the Notes.

Three Business Days prior to each Payment Date the F/X Bank shall, if it is able to enter into an F/X trade, quote a rate of exchange for its conversion of U.S. dollars into RR, which shall apply to its exchange of U.S. dollars in the Collection Account into RR (if Gazprom has elected to enter into such trade) or shall determine the amount of RR deliverable (if Gazprom has not elected to enter into such trade).

Following the making of a Rouble Repayment Election and the service of a Loan Enforcement Notice, the Trustee will be able to utilise the F/X arrangements in place of Gazprom.

If the F/X Bank does not quote a rate of exchange in respect of any trade requested under the FX provisions this shall constitute a Loan Payment Suspension Event (see below).

Gazprom may, subject to certain conditions, enter into an F/X trade with, and obtain a rate of exchange from, an Alternative F/X Bank.

If Gazprom elects to discharge its RR obligations under the Loan Agreement from its own resources, then the RR received by the Issuer will be exchanged pursuant to an F/X trade with the F/X Bank.

Loan Payment Suspension Event.....

If, following a Rouble Repayment Election, the F/X Bank does not provide a rate of exchange (and no Alternative F/X Bank provides such a rate), this shall constitute a Loan Payment Suspension Event. If a Loan Payment Suspension Event has occurred and is continuing, then no payment shall be made in respect of the Loan unless and until the Loan Payment Suspension Event ceases, upon the F/X Bank providing a rate of exchange. Such non-payment shall not

constitute a Loan Event of Default but shall constitute a Holding Event.

Restrictions, Representations and

Warranties and Covenants.....

The Issuer will have the benefit of certain covenants and representations and warranties made by Gazprom, including a negative pledge and restrictions on mergers and disposals, all as fully described in the Loan Agreement.

Loan Events of Default

Gazprom and the Issuer will agree that if one or more of the following events of default (each, an “Event of Default”) occurs and is continuing, the Issuer shall be entitled to the remedies set forth in “Default Remedies” below:

- (i) Except in the event that a Loan Payment Suspension Event has occurred and is continuing, Gazprom fails to pay within three Business Days any amount payable under the Loan Agreement as and when such amount becomes payable in the currency and in the manner specified in the Loan Agreement, provided that such default will not be an Event of Default if (i) it occurs by reason only of administrative or technical difficulties affecting the transfer of the funds due from Gazprom, (ii) Gazprom issued the appropriate transfer and payment instructions in sufficient time to permit the transfer and payment of the amount due to be made on its due date and (iii) the Issuer receives from Gazprom that amount within six Business Days after the due date for payment.
- (ii) Gazprom or Gazexport fails to perform or observe any of their respective other obligations under the Transaction Documents and (except where in any such case that failure is not capable of remedy when no such notices as are hereinafter mentioned will be required) that failure continues for the period of 30 days (or such longer period as the Issuer may permit) next following the submission by the Issuer to Gazprom and Gazexport of a notice in writing requesting the same to be remedied.
- (iii) Any representation or warranty of Gazprom or Gazexport or any statement deemed to be made by Gazprom or Gazexport in the Transaction Documents or in any other document, certificate or notice delivered to the Issuer in connection with the Transaction Documents or the issue of Notes proves to have been inaccurate, incomplete or misleading in any material respect at the time it was made or repeated or deemed to have been made or repeated.
- (iv) Gazprom, Gazexport or any Principal Subsidiary (a) fails to pay any of its Financial Indebtedness as and when such Financial Indebtedness becomes payable, taking into account any applicable grace period or (b) fails to perform or observe any covenant or agreement to be performed or observed by it contained in any other agreement or in any instrument evidencing any of its Financial Indebtedness if, as a result of such

failure, any other party to such agreement or instrument is entitled to exercise, and has not irrevocably waived, the right to accelerate the maturity of any amount owing thereunder; provided, that the total amount of such Financial Indebtedness unpaid or capable of being accelerated exceeds U.S.\$20,000,000 (or its equivalent in another currency); provided however that this paragraph shall not apply to foreign currency Financial Indebtedness (as defined below in "Description of the Loan Agreement") owed by Gazprom, Gazexport or a Principal Subsidiary to Russian persons (being Russian citizens or legal entities organised under Russian law or having their chief place of business in the Russian Federation).

- (v) Gazprom, Gazexport or any Principal Subsidiary commences negotiations with its creditors generally with a view to the general readjustment or rescheduling of its indebtedness or makes a general assignment for the benefit of or a composition with its creditors generally; provided that in the case of a Principal Subsidiary the same could have a Material Adverse Effect.
- (vi) Gazprom, Gazexport or any Principal Subsidiary takes any corporate action or any order is made by a competent court for its winding-up, dissolution, external administration or re-organisation whether by way of voluntary arrangement, scheme of arrangement or otherwise or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of all or a material part of its revenues and assets.
- (vii) Gazprom, Gazexport or any Principal Subsidiary (a) fails or is unable to pay its debts generally as they become due or (b) commences a voluntary case in bankruptcy or any other action or proceeding for any other relief under any law affecting creditors' rights as is similar to bankruptcy law, or (c) a bankruptcy (insolvency) petition in respect of Gazprom, Gazexport, or any Principal Subsidiary is accepted by any competent court and bankruptcy proceedings are initiated by such competent court or (d) any action is brought in and accepted by any competent court for the liquidation of Gazprom, Gazexport, or any Principal Subsidiary; or (e) a Russian federal law that provides for the liquidation of Gazprom as operator of the Unified Gas Supply System is adopted and comes into effect.
- (viii) Any governmental authorisation necessary for the performance of any obligation of Gazprom or Gazexport under the Transaction Documents fails to be in full force and effect or is revoked.
- (ix) Any governmental authority or court takes any action that has a material adverse effect on Gazprom's or Gazexport's ability to perform their respective obligations under the Transaction Documents or the validity or enforceability of the Transaction Documents or the

rights or remedies of the Issuer under the Transaction Documents.

- (x) Any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part of, the assets of Gazprom, Gazexport or any event occurs which under the laws of any jurisdiction has a similar or analogous effect and the same could have a Material Adverse Effect unless such execution, distress, enforcement of an Encumbrance or similar or analogous event is being contested in good faith by Gazprom or Gazexport and is not removed, paid out, stayed or discharged within 30 days of such execution, distress being levied, taking of possession or similar or analogous act, as the case may be.
- (xi) The aggregate amount of unsatisfied final judgments, decrees or orders of courts of competent jurisdiction or other appropriate and competent law-enforcement bodies for the payment of money against Gazprom, Gazexport or a Principal Subsidiary exceeds U.S.\$25,000,000, or the equivalent thereof in any other currency or currencies and there is a period of 45 days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for ten days after the notice to the Issuer and the Trustee pursuant to "Notice of Default" as set out in the Loan Agreement.
- (xii) Any seizure, compulsory acquisition, expropriation, nationalisation or renationalisation after the date of the Loan Agreement by or under the authority of a government authority of all or part (the book value of which is fifteen percent (15%) or more of the book value of the whole) of the assets or all or more than fifteen percent (15%) of the voting or non-voting shares of Gazprom, Gazexport or any Principal Subsidiary is made by any person.
- (xiii) Gazprom, Gazexport or any Principal Subsidiaries of Gazprom cease to carry on the principal business it carries on at the date hereof.
- (xiv) At any time it is or becomes unlawful for Gazprom or Gazexport to perform or comply with any or all of their respective obligations under the Transaction Documents (as defined in the Loan Agreement) or any of such obligations are not, or cease to be, legal, valid, binding and enforceable.
- (xv) Imposition of a moratorium by the Government of the Russian Federation which would affect the ability of Gazprom or Gazexport to service any of their obligations under the Transaction Documents.
- (xvi) In relation to a Gas Sales Contract:
 - (a) The relevant Gas Buyer fails to make payment thereunder or fails to make payment as required under the Notice and Acknowledgement related

- to the Assignment of such Gas Sales Contract (or fails to comply with any of its other material obligations under such Gas Sales Contract or Notice and Acknowledgement).
- (b) Any representation, warranty or certification made by the relevant Gas Buyer in the Notice and Acknowledgement or in any applicable Transaction Document shall prove to be false, incorrect or breached in any material respect.
 - (c) It is unlawful for the relevant Gas Buyer to perform any of its obligations under the relevant Gas Sales Contract and Notice and Acknowledgement or any of such obligations are not, or cease to be, legal, valid, binding and enforceable (subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity regardless of whether enforcement is sought in a proceeding in equity or at law).
 - (d) Any Gas Sales Contract is suspended, terminated, cancelled, rescinded, revoked or replaced in whole or in part or ceases to be in full force and effect.
- (xvii) Any of the Security Documents (in the case of the Springing Assignments, if and when they come into force) ceases to provide the security contemplated thereby, or the security contemplated thereby (in the case of the Springing Assignments, if and when they come into force) is not valid or is materially impaired (for whatever reason) or ceases to be perfected to the extent contemplated thereby or any attachment, collection order or other legal process is levied, enforced or sued out of or against any Gas Sales Contract or any Receivables or the security created under any of the Security Documents (in the case of the Springing Assignments, if and when they come into force) or any Accounts, unless such attachment, collection order or other legal process is contested in good faith and is dismissed within 30 days or, in the reasonable opinion of the Issuer, is frivolous or vexatious.
 - (xviii) Repudiation of any Transaction Document by Gazprom, Gazexport or the relevant Gas Buyer.
 - (xix) The Debt Service Reserve Account is not funded to the required balance within five Business Days of Gazprom receiving notice from the Issuer that the amount in the Debt Service Reserve Account is less than the Security Balance.
 - (xx) A Retention Event is outstanding for 180 consecutive days.
 - (xxi) Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

If any Event of Default shall occur and be continuing, the Issuer may, by notice in writing to Gazprom:

- (a) declare the obligations of the Issuer under the Loan Agreement to be immediately terminated; and/or
- (b) declare all amounts payable under the Loan Agreement by Gazprom that would otherwise be due after the date of such termination to be immediately due and payable; and/or
- (c) irrevocably declare that all amounts due by Gazprom under the Loan Agreement shall be paid in Roubles. The amount of Roubles to be paid by Gazprom shall be the Rouble Equivalent (as defined in the Loan Agreement) of the amount that would otherwise have been payable by it.

If any Retention Event shall occur and be continuing, the Issuer may, by notice in writing to Gazprom, take the actions specified in (iii) above.

In each case in relation to an event described above relating to a Gas Buyer or a Gas Sales Contract (as set out in (xvi), (xvii), (xviii) and (xxi) above), there shall be no Event of Default if Gazprom furnishes as security additional Gas Sales Contracts as described in further detail in “Description of the Transaction Documents—The Loan Agreement—Additional, Replacement Gas Sales Contracts, Gas Sales Contract Amendments and Reassignment of Gas Sales Contracts” within 60 days after the occurrence of the relevant event (or such other period as the Issuer may agree with Gazprom).

Use of Proceeds of the Notes and the
Loan

The Issuer will lend the proceeds of the offering of the Notes to Gazprom pursuant to the Loan Agreement. Gazprom intends to use the proceeds from such offering for general corporate purposes.

Withholding Tax

All payments of principal and interest under the Loan will be made free and clear of all taxes, duties, fees or other charges of the Russian Federation other than as required by law. If any such taxes, duties, fees or other charges are payable, the sum payable by Gazprom will be required (subject to certain exceptions) to be increased to the extent necessary to ensure that the Issuer receives the net sum which it would have received free from any liability in respect of any such deduction or withholding had no such deduction or withholding been made or required to be made. Gazprom is also required to pay additional amounts to the Issuer in respect of Luxembourg taxes imposed on payments made by the Issuer under the Notes (subject to certain exceptions).

Governing Law

The Loan Agreement and the Loan Guarantee and the F/X arrangements set out within the FAAFAs will be governed by English law. The FAAFAs (save for F/X arrangements) will be governed by Luxembourg law.

Summary Consolidated Financial Information of Gazprom

The selected consolidated financial information set forth below shows our historical consolidated financial information as of December 31, 2003, 2002 and 2001 and for the years then ended. The annual consolidated financial information as of December 31, 2003, 2002 and 2001 and for the years then ended has been extracted from, and should be read in conjunction with, the annual audited consolidated financial statements included elsewhere in this Offering Circular. The annual consolidated financial information should also be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” below.

Our annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), including International Accounting Standards (“IAS”) and Interpretations issued by the International Accounting Standards Board. IFRS differs in certain respects from U.S. GAAP. For a summary of certain differences between IFRS and U.S. GAAP that are relevant to us, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Summary of Certain Differences between IFRS and U.S. GAAP.”

All RR amounts related to financial information for periods prior to January 1, 2003 are expressed in constant RR as of December 31, 2002 purchasing power, unless otherwise noted. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from January 1, 2003, we no longer apply the provisions of IAS 29, “Financial Reporting in Hyperinflationary Economies” (“IAS 29”). Accordingly, no adjustment for the effects of changes in general purchasing power have been made for periods starting from January 1, 2003.

For periods up to and including December 31, 2002, the impact of stating our financial information in terms of the measuring unit as of December 31, 2002 was to:

- inflate current period transactions recorded in the statement of operations of the local statutory books by the average rate of inflation for the period in order to state them in terms of the purchasing power of the RR as of the balance sheet date (i.e., using the average inflation factor of 1.0638 for all relevant transactions in the year ended December 31, 2002);
- restate the period end non-monetary assets and liabilities and shareholders’ equity, including share capital, in terms of the measuring unit current as of the period end; and
- restate all comparatives, both monetary and non-monetary items, in terms of the purchasing power of the RR as of December 31, 2002.

The restatement of all comparatives, in particular, had a significant impact on our reported sales and operating profit. For example, domestic sales expressed in constant RR decreased when increases in nominal prices were lower than inflation and increased less than might otherwise be expected even when increases in nominal prices were higher than inflation. Our ability to increase the prices we charge for our natural gas sales in the domestic market is constrained by Government regulations. Moreover, the impact of U.S. dollar and euro price increases for our export sales was offset in recent periods, and the impact of U.S. dollar and euro price decreases was magnified in recent periods, by the real appreciation of the RR (i.e., by a rate of inflation that is higher than the rate at which the RR is depreciating against the U.S. dollar or euro). As a result, our reported sales lagged behind the changes in our actually realized prices in nominal terms. On the other hand, our costs, which are mainly in RR and are generally not regulated, have tended to increase in line with or even above inflation in recent periods.

In addition, the restatement of all comparatives had a significant impact on our debt balances. For example, even though we borrowed more than we repaid during the years ended December 31, 2002 and 2001, the restatement of our comparatives into current purchasing power resulted in our reported debt balances having declined at each period end until December 31, 2002. (The ratios we show below are not affected by this, because the other components of the ratios are subject to similar adjustments.)

The U.S. dollar amounts set forth below were not included in our annual and interim consolidated financial information and are provided for convenience only. They should not be construed as representations that the RR amounts have been or could be converted into U.S. dollars at that or any other rate or as being representative of the U.S. dollar amounts that would have resulted if we reported in U.S. dollars. The U.S. dollar amounts have been translated from the RR amounts at the rate of RR29.45 = U.S.\$1.00, which is the rate published by the Central Bank of Russia on December 31, 2003.

	Year ended December 31,					
	2003		2002		2001	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
	(amounts in millions)					
<i>Statement of Operations</i>						
Sales.....	27,835	819,753	21,891	644,687	24,209	712,967
Operating expenses, of which.....	(20,150)	(593,415)	(16,866)	(496,713)	(17,210)	(506,843)
Depreciation.....	(3,384)	(99,648)	(3,173)	(93,454)	(3,391)	(99,868)
Provisions ⁽¹⁾	(519)	(15,298)	(241)	(7,104)	(1,455)	(42,863)
Operating profit.....	7,686	226,338	5,025	147,974	6,999	206,124
Net interest expense ⁽²⁾	(577)	(17,006)	(633)	(18,629)	(975)	(28,718)
Net monetary effects and other						
financing items ⁽³⁾	650	19,147	1,217	35,853	1,740	51,229
Other ⁽⁴⁾	288	8,495	19	556	105	3,094
Profit tax (expense) benefit, of which ...	(2,540)	(74,817)	(4,622)	(136,132)	(7,239)	(213,191)
Current profit tax expense.....	(1,439)	(42,368)	(1,840)	(54,187)	(3,224)	(94,957)
Deferred profit tax (expense) benefit .	(1,102)	(32,449)	(2,782)	(81,945)	(4,015)	(118,234)
Minority interest.....	(104)	(3,062)	(23)	(667)	(181)	(5,339)
Net profit.....	5,402	159,095	983	28,955	448	13,199

	As of December 31,					
	2003		2002		2001	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
	(amounts in millions)					
Balance Sheet						
<i>Assets</i>						
Total current assets, of which	20,389	600,462	16,474	485,159	19,045	560,877
Cash and cash equivalents and restricted cash ⁽⁵⁾	3,250	95,726	3,089	90,979	3,096	91,163
Total long-term assets, of which	73,468	2,163,625	69,769	2,054,703	67,073	1,975,313
Property, plant and equipment	67,021	1,973,781	62,997	1,855,276	60,543	1,783,004
<i>Liabilities and equity</i>						
Total current liabilities, of which	14,470	426,127	14,565	428,938	17,516	515,836
Taxes payable.....	3,525	103,799	3,630	106,891	4,373	128,787
Short-term borrowings and current portion of long-term borrowings ...	5,794	170,622	6,276	184,823	6,557	193,090
Short term promissory notes payable .	932	27,433	1,405	41,384	2,391	70,402
Total Long term liabilities, of which	15,893	468,037	13,205	388,875	10,161	299,254
Long term borrowings	10,314	303,755	8,442	248,603	8,062	237,413
Long term promissory notes payable..	466	13,715	687	20,218	484	14,259
Restructured tax liabilities.....	208	6,111	360	10,592	746	21,957
Minority interest	502	14,793	346	10,177	590	17,387
Total Shareholders' equity.....	62,993	1,855,130	58,128	1,711,872	57,851	1,703,713

	As of and for the year ended December 31,					
	2003		2002		2001	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
	(amounts in millions, except ratios)					
<i>Certain Items and Ratios</i>						
Adjusted EBITDA ⁽⁶⁾	11,040	325,125	7,848	231,121	10,655	313,785
Gross interest expense ⁽⁷⁾	(1,097)	(32,301)	(994)	(29,265)	(1,457)	(42,902)
Net interest expense ⁽²⁾	(577)	(17,006)	(633)	(18,629)	(975)	(28,718)
Total debt ⁽⁸⁾	17,713	521,636	17,169	505,620	18,238	537,121
Net debt ⁽⁹⁾	14,462	425,910	14,079	414,641	15,143	445,958
Adjusted EBITDA/Gross interest expense	10.07		7.90		7.31	
Adjusted EBITDA/Net interest expense	19.12		12.41		10.93	
Net debt/Adjusted EBITDA	1.31		1.79		1.42	

Notes:

(1) Includes impairment provisions for accounts receivable and prepayments, assets under construction, investments and other long-term assets and inventory obsolescence.

(2) Gross interest expense less interest income.

(3) Monetary gain, exchange gains and gains on and extinguishment of restructured liabilities, less exchange losses. Monetary gain reflects the effect of inflation on our net monetary liability position as a result of the application of IAS 29 prior to 2003.

On September 3, 1999 the Government issued regulation #1002 allowing certain companies to negotiate the restructuring of various overdue taxes, interest and fines due to the federal government authorities over ten years. Interest accrues on the restructured tax payables (excluding interest and fines) at a rate of 5.5% per annum, representing 1/10 of the Central Bank of Russia's annual refinancing rate (55%) as specified in the regulation, and is paid quarterly. Current tax payments must be made timely. If the terms of the restructuring are violated, the original nominal value of the tax payable (including interest and fines) becomes due with additional interest of 1/300 of the Central Bank refinancing rate accruing for each day since the restructuring agreement.

Certain of our subsidiaries have signed such restructuring agreements. This resulted in the recognition of a gain in each of the respective periods based on the difference between the estimated fair value of the new agreements (based on discounted future cash flows) and the carrying amount of the old payables. This gain is reflected in gain on restructured taxes. Following the restructurings, we recognize the amortization of the discount and the interest accruing under the restructuring agreements as interest expense on taxes payable, which also includes interest that accrues when tax payments are overdue.

(4) Share of net income (losses) of associated undertakings and gains (losses) on available-for-sale investments.

(5) Cash and cash equivalents and certain restricted cash include balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations but exclude cash restricted as to withdrawal under banking regulations.

(6) Operating profit plus depreciation and the provisions referred to in note 1 above except for provisions for accounts receivable and prepayments. Provisions for accounts receivable and prepayments were RR16,159 million, RR17,411 million and RR35,070 million for the years ended December 31, 2003, 2002 and 2001, respectively. Adjusted EBITDA should not be considered as an alternative to net profits, operating profit, net cash provided by operating activities or any other measure of performance under IFRS.

(7) Interest expense on taxes payable, short- and long-term debt and other interest expense, excluding capitalized interest on borrowings. See note 3 above for an explanation of interest expense on taxes payable.

(8) Short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities.

(9) Total debt less cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations.

Summary Reserves Information of the Gazprom Group

The following table provides certain summary information about our combined ABC1 natural gas reserves as of the dates indicated. All reserves amounts are given in proportion to our actual shareholding in non-wholly-owned subsidiaries, equity basis companies and joint ventures. See “Gazprom—Reserves and Production—Reserves.”

	As of March 31, 2004	As of December 31,		
		2003	2002	2001
Western Siberia (Urals federal district)⁽¹⁾				
Natural Gas (bcm)	22,690	22,824	22,992	22,983
Gas Condensate (million tons)	763.0	763.4	768.0	770.3
(mmbbls)	5,593	5,596	5,629	5,646
Crude oil (million tons)	466.7	466.4	461.0	473.9
(mmbbls)	3,421	3,419	3,379	3,474
Combined (mmboe)	142,563	143,352	144,244	144,393
Northern European Russia (Northwestern federal district)				
Natural Gas (bcm)	1,478	1,478	1,479	1,496
Gas Condensate (million tons)	38.5	38.4	38.5	45.3
(mmbbls)	282	281	282	332
Crude oil (million tons)	31.9	31.3	31.8	32.1
(mmbbls)	234	229	233	235
Combined (mmboe)	9,512	9,210	9,220	9,372
Southern Russia (Southern federal district)				
Natural Gas (bcm)	2,622	2,625	2,639	2,654
Gas Condensate (million tons)	397.0	398.0	401.6	405.4
(mmbbls)	2,910	2,917	2,944	2,972
Crude oil (million tons)	3.2	3.3	3.1	0.7
(mmbbls)	23	24	23	5
Combined (mmboe)	18,366	18,392	18,499	18,598
South Ural Region (Privolzhski federal district)				
Natural Gas (bcm)	839	844	913	929
Gas Condensate (million tons)	59.0	59.3	59.6	59.9
(mmbbls)	432	435	437	439
Crude oil (million tons)	59.9	59.9	57.8	58.8
(mmbbls)	439	439	424	431
Combined (mmboe)	5,810	5,841	6,235	6,338
Southwestern Siberia (Siberian federal district)				
Natural Gas (bcm)	234	235	136	85
Gas Condensate (million tons)	20.7	20.7	15.6	9.7
(mmbbls)	152	152	114	71
Crude oil (million tons)	8.2	8.2	8.6	5.3
(mmbbls)	60	60	63	39
Combined (mmboe)	1,589	1,595	977	610
Total⁽²⁾				
Natural Gas (bcm)	27,863	28,006	28,159	28,147
Gas Condensate (million tons)	1,278.2	1,279.6	1,283.4	1,290.6
(mmbbls)	9,369	9,381	9,407	9,460
Crude oil (million tons)	569.9	569.1	562.3	570.8
(mmbbls)	4,177	4,172	4,122	4,184
Combined (mmboe)	177,543	178,390	179,483	179,312

Notes:

(1) As a result of our participation with Rosneft and other parties in a joint activity for the development of the Shtokmanovskoye and Prirazlomnoye fields, we include in our combined ABC1 reserves 50% of the reserves of these fields as of March 31, 2004 and December 31, 2003, 62% of the reserves of these fields as of December 31, 2002 and 100% of the reserves of these fields as of December 31, 2001. See “Business—Projects and Alliances in Reserves and Production—Shtokmanovskoye and Prirazlomnoye fields.”

(2) Totals may not add due to rounding.

Since 1997, DeGolyer and MacNaughton, an independent U.S. petroleum engineering consulting firm, has evaluated our reserves according to internationally accepted classifications and methodologies developed by the Society of Petroleum Engineers and approved by the Joint Reserves Evaluation Committee (“SPE International Standards”). As of December 31, 2003, DeGolyer and MacNaughton had completed evaluations of 19 fields (21 deposits) accounting for approximately 90% of our combined ABC1 natural gas reserves, approximately 91% of our combined ABC1 gas condensate reserves and approximately 64% of our combined ABC1 crude oil reserves. We believe that the fields evaluated by DeGolyer and MacNaughton are likely to contain most of our reserves that would be deemed proved or probable upon a full audit of our upstream properties.

SPE International Standards differ from the standards applied by the United States Securities and Exchange Commission (“SEC Standards”). See “Gazprom—Reserves and Production—Reserves—Differences between SPE International Standards and SEC Standards.”

The following table provides certain summary information about our proved and probable natural gas reserves in the fields evaluated by DeGolyer and MacNaughton as of December 31, 2003, 2002 and 2001. All reserves amounts are given in proportion to our actual shareholding in non-wholly-owned subsidiaries, equity basis companies and joint ventures, unless otherwise noted.

	As of December 31,								
	2003			2002			2001		
	SPE International Standards			SPE International Standards			SPE International Standards		
	Proved ⁽³⁾⁽⁴⁾	Probable ⁽³⁾⁽⁴⁾	Combined Proved and Probable ⁽³⁾⁽⁴⁾⁽⁵⁾	Proved ⁽³⁾⁽⁴⁾	Probable ⁽³⁾⁽⁴⁾	Combined Proved and Probable ⁽³⁾⁽⁴⁾⁽⁵⁾	Proved	Probable	Combined Proved and Probable ⁽⁵⁾
Reserves in our fields audited to SPE International Standards⁽¹⁾⁽²⁾									
Natural Gas (tcm). . .	16.6	1.8	18.5	16.8	1.9	18.7	16.2	1.5	17.7
Gas Condensate (million tons)	423.8	154.1	577.9	374.9	140.9	515.8	289.2	77.9	367.1
(mmbbls)	3,106.7 ⁽⁶⁾	1,129.5 ⁽⁶⁾	4,236.2 ⁽⁶⁾	2,748.0 ⁽⁶⁾	1,032.8 ⁽⁶⁾	3,780.8 ⁽⁶⁾	2,119.8 ⁽⁶⁾	571.3 ⁽⁶⁾	2,691.3 ⁽⁶⁾
Crude oil (million tons)	8.4	98.8	107.3	7.7	98.8	106.5	8.1	98.8	106.9
(mmbbls)	61.9 ⁽⁶⁾	724.5 ⁽⁶⁾	786.4 ⁽⁶⁾	56.2 ⁽⁶⁾	724.1 ⁽⁶⁾	780.3 ⁽⁶⁾	59.7 ⁽⁶⁾	724.1 ⁽⁶⁾	783.7 ⁽⁶⁾

Notes:

- (1) Data presented relates to the 19 fields (21 deposits), 19 fields (21 deposits) and 17 fields (18 deposits) evaluated by DeGolyer and MacNaughton in their evaluations as of December 31, 2003, 2002 and 2001, respectively.
- (2) Data presented here include 90% of the reserves of the West Tarkosalinsk field. As of the dates of the evaluations by DeGolyer and MacNaughton, we had entered into an agreement with Purneftegazgeologia, the holder of the production license, pursuant to which we received 90% of the production from the field in exchange for developing it.
- (3) Data presented here include 100% of the reserves of the Gubkinskoye field, though we only hold a 51% proportionate interest through our subsidiary Purgaz.
- (4) Data presented here include 100% of the reserves of the Yuzhno-Russkoye field as of December 31, 2003 and 49% of the reserves of this field as of December 31, 2002. The license for this field is held by Severneftegazprom. In February 2003, we increased our interest in Severneftegazprom to 100%. See “Management’s Discussion Analysis of Financial Condition and Results of Operations—Certain Acquisitions and Dispositions—Our asset reacquisition program.”
- (5) Totals may not add due to rounding.
- (6) Amounts differ from those provided in the DeGolyer and MacNaughton letter attached as Appendix A because in this Offering Circular we use a conversion rate from metric tons to barrels of 1 ton = 7.33 barrels. Amounts in barrels provided in the DeGolyer and MacNaughton letter are calculated based on the specific gravities of each field.

Summary Production Information of the Gazprom Group

The following table presents summary production information for the periods indicated. Our production activities are more fully described in “Gazprom—Reserves and Production.”

	For the three months ended March 31,		For the year ended December 31,		
	2004	2003	2003	2002	2001
West Siberia (Urals federal district)⁽¹⁾⁽²⁾					
Natural Gas (bcm)	135.0	133.7	500.1 ⁽²⁾	482.8 ⁽²⁾	473.5
Gas Condensate (thousand tons).....	1,544.4	1,303.1	5,207.6	5,090.5	4,971.3
(mmbls)	11.3	9.6	38.2	37.3	36.4
Crude oil (thousand tons).....	122.1	124.7	499.0	509.0	508.3
(mmbls)	0.9	0.9	3.7	3.7	3.7
Combined (mmboe).....	806.6	797.4	2,985.3	2,882.7	2,827.1
Northern European Russia (Northwestern federal district)					
Natural Gas (bcm)	0.7	0.7	2.9	2.9	3.2
Gas Condensate (thousand tons).....	71.6	81.7	339.0	374.6	381.7
(mmbls)	0.5	0.6	2.5	2.7	2.8
Crude oil (thousand tons).....	18.0	—	—	—	—
(mmbls)	0.1	—	—	—	—
Combined (mmboe).....	4.8	4.7	19.6	19.8	21.6
Southern Russia (Southern federal district)					
Natural Gas (bcm)	3.2	3.4	13.3	12.9	12.5
Gas Condensate (thousand tons).....	974.4	1,024.7	4,032.7	3,934.4	3,770.6
(mmbls)	7.1	7.5	29.6	28.8	27.6
Crude oil (thousand tons).....	37.5	22.3	105.8	trace	3.5
(mmbls)	0.3	0.2	0.8	trace	trace
Combined (mmboe).....	26.3	27.7	108.6	104.8	101.2
South Ural Region (Privolzhski federal district)					
Natural Gas (bcm)	4.9	5.3	20.1	21.5	22.8
Gas Condensate (thousand tons).....	78.2	75.8	276.0	319.5	358.4
(mmbls)	0.6	0.6	2.0	2.3	2.6
Crude oil (thousand tons).....	53.2	48.5	191.6	192.1	192.6
(mmbls)	0.4	0.4	1.4	1.4	1.4
Combined (mmboe).....	29.8	32.1	121.7	130.3	138.2
Southwestern Siberia (Siberian federal district)⁽³⁾					
Natural Gas (bcm)	1.1	1.0	3.7	1.9	—
Gas Condensate (thousand tons).....	114.9	98.4	363.9	184.0	—
(mmbls)	0.8	0.7	2.7	1.3	—
Crude oil (thousand tons).....	0.0	1.7	6.4	5.3	—
(mmbls)	0.0	trace	trace	trace	—
Combined (mmboe).....	7.3	6.6	24.5	12.0	—
Total⁽⁴⁾					
Natural Gas (bcm)	144.9	144.1	540.2	521.9	512.0
Gas Condensate (thousand tons).....	2,783.5	2,583.7	10,219.2	9,903.0	9,482.0
(mmbls)	270.8	197.2	74.9	72.6	69.5
Crude oil (thousand tons).....	20.4	18.9	802.8	706.4	704.4
(mmbls)	1.7	1.4	5.9	5.2	5.2
Combined (mmboe).....	874.7	868.5	3,259.7	3,149.6	3,088.1

Notes:

- (1) Data for 2001 through 2003 include 90% of the production from the Cenomanian layer of the West Tarkosalinsk field, pursuant to an agreement with Purneftegazgeologia, the holder of the production license for the field. Under this agreement, which was concluded in accordance with Purneftegazgeologia's license agreement for the field, we receive 90% of the production from the Cenomanian layer of the field in exchange for developing it. As a result of changes in tax legislation that took effect at the start of 2004, we are required to change the terms of our agreement, and production and development of the field ceased in the first quarter of 2004. We are currently seeking a new arrangement with respect to this field that is in accordance with the new tax legislation.
- (2) Includes our 51% share in natural gas produced at the Gubkinskoye field starting from the second half of 2002. See “Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Acquisitions and Dispositions.”
- (3) Constitutes 100% of the output of Vostokgazprom starting from the second half of 2002. We increased our ownership interest in Vostokgazprom from 83.8% to 99.9% in May 2004. See “Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Acquisitions and Dispositions—Recent developments.”
- (4) Totals may not add due to rounding.

Summary Sales and Operating Information of the Gazprom Group

The following table summarizes certain sales and operating information for the periods indicated. You should read this information together with our annual audited consolidated financial statements prepared in accordance with IFRS included elsewhere in this Offering Circular and the information under “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” See “Gazprom” for a full description of our sales and operations.

All RR amounts in the following table for periods prior to January 1, 2003 are expressed in constant RR as of December 31, 2002 purchasing power. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from January 1, 2003 we no longer apply the provisions of IAS 29. Accordingly, no adjustment for the effects of changes in general purchasing power has been made for periods starting from January 1, 2003.

The U.S. dollar amounts were not included in our consolidated financial information and are provided for convenience only. They should not be construed as representations that the RR amounts have been or could be converted into U.S. dollars at that or any other rate or as being representative of U.S. dollar amounts that would have resulted if we reported in U.S. dollars. The U.S. dollar amounts have been translated from the RR amounts at the rate of RR29.45 = \$1.00, which is the rate published by the Central Bank of Russia on December 31, 2003.

	For the year ended December 31,					
	2003		2002		2001	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
Gas (bcm)	495.5	495.5	469.2	469.2	467.4	467.4
Domestic sales ⁽¹⁾	6,998	206,094	5,421	159,642	4,522	133,187
Export sales ⁽¹⁾	20,407	600,972	16,794	494,591	19,588	576,868
FSU ⁽¹⁾	1,820	53,591	2,088	61,506	1,909	56,221
Europe ⁽¹⁾	18,587	547,381	14,706	433,085	17,679	520,647

Note:

(1) Gross sales (including excise tax and net of VAT and customs duties).

The following table sets forth our average realized prices per mcm of natural gas (including excise tax, net of VAT and customs duties) for the periods indicated in nominal terms (actual prices realized at the time) and as stated in constant RR of December 31, 2002 purchasing power. Our sales to Europe and the FSU (other than to Belarus) are denominated in convertible currencies, mainly in U.S. dollars.

	For the year ended December 31,					
	2003		2002		2001	
	Nominal	Nominal RR	Nominal	Constant RR ⁽¹⁾	Nominal	Constant RR ⁽¹⁾
Europe	U.S.\$123.9	3,782.3	U.S.\$102.5	3,369.0	U.S.\$122.6	4,100.0
FSU	U.S.\$40.9	1,256.6	U.S.\$45.4	1,444.2	U.S.\$41.5	1,417.5
Russia	RR668.7	668.7	RR505.0	535.7	RR357.9	442.8

Note:

(1) As of December 31, 2002 purchasing power.

RISK FACTORS

Prospective investors should consider carefully the risks set forth below and the other information contained in this Offering Circular prior to making any decision to invest. Each of the risks highlighted below could have a material adverse effect on our business, operations and financial condition which, in turn, could have a material adverse effect on our ability to service our payment obligations under the Loan or Gazprom Notes Guarantee or on Gazexport's ability to service its payment obligations under the Loan Guarantee or Gazexport Notes Guarantee and thus on debt service on the corresponding Notes. In addition, the trading price of the Notes could decline due to any of these risks, and you could lose some or all of your investment.

You should note that the risks described below are not the only risks we face. We have described only the risks we consider to be material. However, there may be additional risks that we currently consider not to be material or of which we are not currently aware, and any of these risks could have the effects set forth above.

Risks Relating to Our Business

The prices of the natural gas we sell in Europe under long-term contracts are linked to international prices for oil products, and so a decline in international prices for oil products could adversely affect us.

We sell a substantial portion of our natural gas in Europe, which is our primary source of foreign currency revenues and cash flows. For more than 30 years, we and our predecessors have sold natural gas to purchasers in western Europe, generally pursuant to long-term contracts with prices linked to international prices for oil products. Changes in the prices we realize on natural gas under our long-term contracts with European customers typically lag about six to nine months behind changes in oil product prices. Such prices have fluctuated widely in response to changes in many factors, over which we have no control. These factors include:

- economic and political developments in oil producing regions, particularly in the Middle East;
- global and regional supply and demand, and expectations regarding future supply and demand, for oil products;
- the ability of members of the Organization of Petroleum Exporting Countries, or OPEC, and other crude oil producing nations to agree upon and maintain specified global production levels and prices;
- other actions taken by major crude oil producing or consuming countries;
- prices and availability of alternative fuels;
- global economic and political conditions;
- prices and availability of new technologies; and
- weather conditions.

Should international oil product prices deteriorate, the natural gas prices we realize under our long-term contracts with European customers would decline as well, resulting in a reduction in our export revenues. A decline in our European natural gas export revenues would adversely affect our business, results of operations, cash flows and financial condition, and our ability to finance planned capital expenditures.

In addition, the European Commission had expressed a desire to see a move from long-term contracts in favor of short-term contracts. Such an alteration of the basis on which we conduct our business would have further increased our exposure to currency and gas and oil price fluctuations as well as potentially limited our ability to support long-term investment plans. We have held discussions with the EU in this regard and it has now recognized the importance of long-term contracts to the continued development of the oil and gas industry and the stability and security of natural gas supplies. There can be no assurance that the EU will continue to support the use of long-term contracts.

During the next nine years, export contracts accounting for almost one-third of the volume of natural gas we currently export to Europe will expire. More than half of these volumes are under contracts that will expire in 2012. Most of the contracts that are expiring contain clauses that provide for automatic renewal unless one party objects. Although we believe that these contracts will be renewed, no assurance can be given that we will be able to do so on favorable pricing and other terms or at all.

We are required to supply natural gas to customers in Russia at prices that are regulated by the Government and that are lower than international natural gas prices.

We are, and are likely to remain for the foreseeable future, a regulated monopoly with respect to our activities in the transportation of natural gas. In Russia, natural gas prices are subject to control by governmental authorities and are significantly lower than the prices we charge to western European off-takers even after netting back export and customs duties and transportation costs. Moreover, domestic natural gas prices for households are currently less than natural gas prices for industrial and commercial end users, and the wholesale prices we are able to charge for gas delivered to households reflect this discount.

The Government has stated that, over time, natural gas prices for all customers in Russia will gradually be increased. Moreover, we believe that Government regulation of natural gas prices for domestic end-users will be abandoned in the long run in favor of free market prices; we believe that in the long run state regulation is likely to be maintained for natural gas transportation tariffs only.

No assurance can be given, however, that natural gas prices in Russia will increase, that consumers will be willing or able to pay increased natural gas prices or that the regulation of natural gas prices will be relaxed. If the Government decides to keep natural gas prices at artificially low levels, thereby effectively forcing us to continue to subsidize the rest of the Russian economy, there is a risk that we will not generate sufficient revenues to proceed with investments in the development of certain natural gas fields (for instance the Yamal Peninsula reserves) or to continue to develop export pipelines, or that we will be able to take these steps only through outside financing beyond currently anticipated requirements. If we are unable to develop these fields or export pipelines, or if we are able to do so only on the basis of additional outside financing, our future results of operations, cash flows and financial condition could be adversely affected.

In accordance with the Gas Supply Law, consumers are obliged to pay for natural gas supplies and transportation services. If consumers fail to make such payments, suppliers have the right to limit or suspend natural gas supplies to such consumers in accordance with specific procedures provided for by a number of Government resolutions. The Government of the Russian Federation has, however, issued a number of resolutions (e.g., Government Resolution No. 1 dated January 5, 1998 and Government Resolution No. 364 dated May 29, 2002) regulating the restriction or suspension of supplies to certain customers. These consumers include, inter alia, medical institutions, military units, nuclear plants, communication organizations and certain vital utilities.

Delayed, non-collectable and non-cash payments by our customers in Russia and the FSU could adversely affect us.

Our cash flows are adversely affected by the limited ability, or the inability, of our customers in Russia and FSU countries to pay for our natural gas. There can be no assurance that amounts owed to us by our customers in Russia and the FSU will be paid in full or, if paid in full, that payment will be in cash. As is the case with many Russian companies, we have had to accept various forms of non-cash settlement, including negotiable promissory notes, bonds, equity interests in natural gas companies and goods and services as payment for supplies to customers in Russia and the FSU. Recently, cash payments have increased as a proportion of our sales proceeds, and almost all non-cash settlements are now in the form of promissory notes. For example, the percentage of non-cash settlements related to domestic sales of natural gas decreased from approximately 65% in 1999 to approximately 21% in 2003. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Certain Factors Affecting our Results of Operations—Non-cash settlements.” Non-cash settlement of transactions has had in the past, and may continue to have in the future, an adverse effect on our ability to fund operational or capital expenditures required to be made in cash and to make tax and other mandatory payments when due.

We bear a substantial tax burden.

We are subject to a broad range of taxes imposed at federal, regional and local levels and we are one of the largest sources of tax revenue to the federal authorities, as well as to the regional and local authorities in those regions and localities in which we operate. The combination of political pressure on the federal, regional and local authorities to address social and economic issues (and in particular the non-payment of salaries and pensions) and the difficulties associated with collecting taxes from companies and enterprises in financial difficulties, all increase the risk that the Government, as well as regional and local governments, will seek to mitigate these problems by increasing our already substantial tax burden.

The Government has exercised, and can be expected to continue to exercise, a strong influence over our operations.

The Russian Federation owns 38.37% of our shares, and representatives nominated by the Government currently hold five of the 11 seats on our Board of Directors. Moreover, our subsidiaries held approximately 16.2% of our shares as of December 31, 2003, which they are entitled to vote as owners. In addition, our natural gas transportation activities are a “natural monopoly” under the Natural Monopoly Law. As a result, the Government regulates the prices we charge for gas in the domestic market, the tariffs we charge for the transportation of third parties’ gas through the Unified Gas Supply System (the “UGSS”) and other matters affecting our business. For example, we have our budget, capital expenditure program and borrowing program approved by the Government. Through its share ownership, representation on our Board of Directors and role as our regulator, the Government has a strong influence over our operations and our dividend policy. The Government has previously required Russian companies, including us, to take actions—such as the undertaking of projects and the supply of goods and services to customers—that may not be in the best interests of such companies or their shareholders. For example, the Government sets the prices for domestic gas delivered by us at a low level and requires us to supply natural gas to certain customers notwithstanding their inability to pay for the natural gas supplied.

State authorities may reorganize our business to increase competition in the gas sector.

The possibility that we may be reorganized into several smaller and less powerful production and transportation companies has been and continues to be the subject of much domestic and international press speculation. There have at times been public statements by certain Russian politicians and Government officials calling for our natural gas operations to be divided into a number of companies, or for particular functions to be re-allocated to other entities. Although the adoption of the Gas Supply Law mitigates the risk of reorganization and both we and the Government have made clarifying statements about any potential future restructuring, we are not fully protected against the risks of a state-led reorganization.

Our licenses may be suspended, amended or terminated prior to the end of their terms, and we may not be able to obtain or maintain various permits and authorizations.

The licensing regime in Russia for the exploration, development and production of natural gas, gas condensates and crude oil is governed primarily by the Subsoil Resources Law and numerous regulations issued thereunder. We currently conduct our operations under multiple exploration and production licenses, substantially all of which are held by our subsidiaries and related entities. Our production licenses for our major producing fields extend through the period between 2012 and 2019. Most of our licenses also provide that they may be terminated if we fail to comply with license requirements, do not make timely payments of levies and taxes for the use of the subsoil, systematically fail to provide information, go bankrupt or fail to fulfill any capital expenditure and/or production obligations.

Although we believe we are currently in material compliance with the requirements of our licenses, we may not be able to remain in compliance with some or all of these requirements in the future. If we fail to fulfill the specific terms of any of our licenses or if we operate in the license areas in a manner that violates Russian law, Government regulators may impose fines on us or suspend or terminate our licenses. Any suspension, amendment or termination of our licenses could have an adverse effect on our operations, financial position or the value of our assets.

In addition, we are required to obtain and maintain permits or approvals to develop our fields and retain our licenses. If we fail to obtain or maintain these permits and authorizations, we may be required to delay our investment program, or our licenses could be terminated, and this may reduce our cash flows and adversely affect our business.

We must increase our capital expenditures in order to satisfy the anticipated demand of our customers.

Over the next several years, we must further improve our natural gas, gas condensate and oil production capabilities to meet the anticipated demand of customers in western Europe, Russia and certain FSU countries and offset declines in our main producing fields. Our principal planned developments include modernizing our pipeline system, further developing the Zapolyarnoye field and developing our fields in the Yamal Peninsula. These developments will require significant capital expenditures over the next several years. We expect to fund such capital expenditure through internal sources and external financing. There can be no assurance, however, that we will be able to generate and

raise sufficient funds to meet such capital requirements in the future or to do so at a reasonable cost. Lack of sufficient funds in the future may require us to delay or abandon some or all of our anticipated projects.

Exploratory drilling involves numerous risks, including the risk that we will encounter no commercially productive natural gas reserves.

We are exploring in various geographical regions, including western Siberia and the Barents Sea, which are characterized by their remoteness from population centers, challenging environmental conditions and high costs. The cost of drilling, completing and operating wells is often uncertain. As a result, we may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment. Our overall drilling activity or drilling activity in particular project areas may be unsuccessful in that we may not find commercially productive reservoirs.

If we fail to develop our undeveloped fields, our production levels will decline materially.

We expect the volume of natural gas produced in three of our leading fields, Yamburgskoye, Medvezhye and Urengoiyskoye, to decline significantly over the next eight years as we deplete the natural gas deposits in these fields. Our future production of natural gas is highly dependant on developing the natural gas reserves in our other large fields. If we are unsuccessful we may not meet our long-term production targets, which could adversely affect our ability to meet our contractual export commitments and domestic supply obligations.

We encounter competition from alternative fuels and other natural gas producers and suppliers in Europe.

We face varying degrees of competition in each of our major markets in Europe from providers of alternative fuels, such as oil and coal. No assurance can be given that we will be able to compete effectively with such providers of alternative fuels.

We also encounter competition in Europe from other natural gas suppliers (especially from The Netherlands, Norway and Algeria), which could affect the prices and volumes of our sales to Europe. If an oversupply of natural gas occurs, natural gas purchasers may be able to negotiate lower prices on supply contracts with producers such as ourselves. Although we believe that current prices in the European markets are sustainable over the medium term, especially in light of the forecast growth in European natural gas demand, continued economic slowdown in Europe or the emergence of new large suppliers of natural gas could result in an oversupply, and downward pressure on natural gas prices.

In addition, during the next nine years, export contracts accounting for almost one-third of the volume of natural gas we currently export to Europe will expire. More than half of these volumes are under contracts that will expire in 2012. Most of the contracts that are expiring contain clauses that provide for automatic renewal unless one party objects. Although we believe that these contracts will be renewed, no assurance can be given that we will be able to do so on favorable pricing and other terms or at all.

We received a request for information from the European Commission with respect to the so-called destination clauses in our contract with an Italian off-taker, under which the Italian off-taker is prevented from re-exporting gas that it purchases from us. A successful challenge of such clauses by the European Commission would have meant that such off-takers could be free to sell natural gas supplied by us to other off-takers outside of the relevant market, leading to increased competition and the possibility of lower prices. During the course of consultations with us, the European Commission recognized the need to find economic alternatives to destination clauses that are viable for suppliers of natural gas. We have, for example, found such a solution with Eni and OMV, and are negotiating alternatives with E.ON Ruhrgas. We no longer include such clauses in new contracts. However, there can be no assurance that our discussions with the European Commission will lead to a beneficial result or that the current position of the European Commission will not change.

In addition, the western European gas market is undergoing significant change as a result of the EU Gas Directive, which was initially adopted in August 1998 and subsequently replaced by the new Gas Directive, adopted in June 2003. The purpose of the Gas Directives is to deregulate and liberalize the EU gas market by introducing greater competition into the market and reducing gas prices for the end-user. The Gas Directives have sought to accomplish these objectives by opening transmission and distribution infrastructure to third parties and establishing fair tariffs for third-party use of natural gas transportation

infrastructure and greater transparency of transportation and distribution costs by unbundling of the accounts for gas transportation, distribution and storage. The new Gas Directive provides that from July 1, 2004, all non-household gas consumers are to have the right to select the gas supplier, and from July 1, 2007 this right is to be extended to all natural gas consumers.

The new Gas Directive may also promote the emergence of a short-term price or “spot” market for natural gas. Because of the time it takes to transport our natural gas from our natural gas fields to western European markets, it would be difficult for us to engage in spot transactions involving physical settlement. The emergence of a spot market may also make it more difficult for us to negotiate long-term supply contracts under which we currently export a majority of our natural gas and may decrease the period between pricing revisions under new long-term contracts, which are currently set at three years for most contracts.

Despite this liberalization of the natural gas market, however, the price of natural gas in western Europe has remained steady and prices for different regions have not converged significantly. Nonetheless, the new Gas Directive will increase competition in European gas markets as a greater number of suppliers gain access to the natural gas infrastructure, which may adversely affect our long-term supply contracts with European customers.

Russia has signed the Energy Charter Treaty, an international treaty for establishing and improving the legal framework for corporate international co-operation in energy matters, but the State Duma has not yet ratified the Treaty. See “Overview of the Russian Gas Industry and its Regulation.” We believe that ratification of the Energy Charter Treaty would result in greater access to the energy markets in Russia for foreign investment as well as the further access by third parties to our pipelines, including for the transportation of natural gas from Central Asia to European markets. Accordingly, although we believe that we could benefit from increased third-party access and influence the manner in which access was distributed, the ratification of the Energy Charter Treaty could also lead to substantially increased competition and affect our long-term supply contracts with European customers.

We face certain operational risks which may result in losses and additional expenditures.

A large number of our gas production facilities are located in western Siberia, where remoteness and the harsh climate complicate and increase the cost of production and affect our ability to transport our natural gas economically.

Our gas exploration, production and transportation operations may be adversely affected by many factors, including the breakdown or failure of equipment or processes, performance below our expected levels of output or efficiency, labor disputes, natural disasters, weather conditions and terrorist attacks or sabotage to our extensive pipeline network. We have only limited insurance in relation to our assets and operations and, therefore, the financial effect of any such factors would generally have to be satisfied out of our cash flow. For example, we do not carry insurance for environmental damage arising from accidents on our property, for business interruption or against terrorist attacks. See “Business—Support Activities—Insurance.”

We own and operate the UGSS, which is responsible for the gathering, processing, transportation, storage and delivery of substantially all natural gas supplies in Russia (except for supplies to the Norilsk, Yakutsk and Sakhalin regions). This extensive network of pipelines and compressor installations has been largely developed over the past 30 years. Most of the pipeline is over 10 years old with some parts of the pipeline over 30 years old. A significant part of the pipeline is protected by chemical processes of limited duration and effectiveness. In addition, large segments of the network are located in regions with harsh climates, where construction, maintenance and refurbishment are difficult and costly. Considerable sums of money are required each year to maintain the UGSS. Although there have been no significant delays or curtailments of the supply of natural gas to our customers recently, no assurance can be given that such delays or curtailments will not occur in the future due to the stress and corrosion of pipelines, defective construction of compressor stations, problems associated with the harsh climate or the insufficient maintenance or refurbishment of the network.

We are dependent on the links between our pipeline network and other pipeline networks that we do not control for the export of natural gas. Although it is our strategy to diversify our export routes, we are currently dependent on pipelines in Ukraine and Belarus to deliver a large proportion of the natural gas we sell to customers in western Europe. We are also dependent on the Ukrainian pipeline system for a significant amount of our storage capacity. At the same time, Ukraine and Belarus are dependent on us to meet their domestic requirements for natural gas. Although this interdependence is taken into account

in negotiations over a number of matters, including the terms of payment for natural gas supplied by us and transit fees, and we have recently entered into an agreement with the Ukrainian government for the creation of a consortium to operate the Ukrainian pipeline system, we currently have no control over the pipeline systems in Ukraine or Belarus and cannot prevent any material disruption in the flow of our natural gas through Ukraine and Belarus. In the past, some of our gas has been diverted as it passed through Ukraine. In February 2004, some of our gas was diverted as it passed through Belarus, leading us to suspend, for several hours, all deliveries through the Belarus pipeline to Europe (which did not interrupt our deliveries in light of stored capacity). We can only monitor the flow of natural gas into and out of Ukraine and Belarus and therefore may not be able to detect losses when and where they occur. Disputes with Ukraine or Belarus could lead to suspension of gas deliveries through their pipeline systems, disrupting our exports to Europe.

We plan to expand our export capacity and to diversify our export routes through additional capital investments in the Yamal-Europe Project and through other export-oriented projects, such as the North European pipeline project under the Baltic Sea. It is possible, however, that these plans will be affected by, among other things, difficulties related to localized planning and construction processes and our ability to obtain external financing on acceptable terms. No assurance can be given that we will be able to meet our construction targets. If we do not, we could experience difficulties in meeting our contractual obligations to supply gas under certain of our long-term contracts.

We depend on regular access to the domestic rouble bank loan and rouble debt markets to meet a significant portion of our financing requirements.

Our financing strategy involves the refinancing of a portion of our short-term rouble-denominated indebtedness with long-term borrowings in convertible currencies, such as U.S. dollars and euro. However, we fund a portion of our debt financing requirements with short-term, rouble-denominated debt, and are thus dependent on access to short-term rouble financing. This includes access to both the domestic rouble-denominated bank loan market as well as to the growing domestic market for short- to medium-term, rouble-denominated bonds. Our ability to continue to access the rouble debt markets in amounts sufficient to meet our financing needs could be adversely affected by a number of factors, including economic conditions in Russia, the health of the Russian banking and financial system in general and the extent of the exposure of individual Russian banks and other investors in the rouble debt market to Gazprom risk. If we are unable to continue to access the short-term rouble bank loan and debt markets as required, our financial condition and results of operations could be materially and adversely affected.

As an energy company we face significant environmental risks.

Our operations, which are often potentially hazardous, are subject to the risk of liability arising from environmental damage or pollution and the cost of any associated remedial work in relation thereto. We have an established environmental policy and monitor our operations in an effort to meet applicable environmental standards. We have made provisions in our financial information prepared in accordance with IFRS for such environmental liabilities where it was probable that an obligation exists and the amount could be reasonably estimated. Such provisions have been made in accordance with what we believe is a reasonable and prudent policy that takes into account payments made in prior years, among other factors. However, in Russia in particular, federal, regional and local authorities may enforce existing laws and regulations more strictly than they have done in the past and may impose stricter environmental standards, or higher levels of fines and penalties for violations, than those now in effect. Accordingly, we are unable to estimate the future financial impact of our environmental obligations.

The Russian reserves system differs significantly from SPE International Standards and the standards applied by the U.S. Securities and Exchange Commission.

Most of the information relating to natural gas, gas condensate and oil reserves contained in this Offering Circular has been prepared on the basis of the Russian reserves system, which differs significantly from SPE International Standards and the standards applied by the U.S. Securities and Exchange Commission (the “SEC”), in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves.

Since 1997, DeGolyer and MacNaughton has evaluated our reserves of natural gas, gas condensate and crude oil according to SPE International Standards. We believe that the fields evaluated by DeGolyer and MacNaughton are likely to contain most of our reserves that would be deemed proved or probable upon a full evaluation of our upstream properties according to SPE International Standards. See “Gazprom—Reserves and Production—Reserves.”

Violations of existing international or U.S. sanctions could subject us to penalties that could have an adverse effect on us.

International and U.S. sanctions have been imposed on companies engaging in certain types of transactions with specified countries or companies in those countries.

Since 1997, we have been involved, in partnership with Total and Petronas, in a project to develop the second and third phases of the South Pars field, located in the Iranian segment of the Persian Gulf. In May 1998, the U.S. Department of State issued a determination that the investment made by our partners and us in Iran's South Pars gas and condensate field constituted activity covered by the Iran and Libya Sanctions Act ("Sanctions Act"), and, at the same time, communicated its decision to waive sanctions under Section 9(c) of the Sanctions Act with respect to such investment. The waiver applies to activities in the South Pars field only, and not to any other activities we may conduct in Iran. See "Business—Reserves and Production—Projects and Alliances in Reserves and Production."

In November 2002 we concluded a strategic partnership agreement with LUKOIL that, among other things, provides for cooperation with respect to potential oil and gas projects in a number of countries, including Iran. We have not yet undertaken any projects under this agreement in countries subject to international or U.S. sanctions.

If we violate existing international or U.S. sanctions, penalties could include a prohibition or limitation on our ability to obtain goods and services on the international market or to access the U.S. or international capital markets. We are not currently involved in any transactions in Iran or other countries that could result in sanctions against us or for which we have not received a waiver of such sanctions.

Risks Relating to the Russian Federation

We are a Russian company and substantially all of our fixed assets are located in, and a significant portion of our revenues are derived from, Russia. There are certain risks associated with an investment in Russia.

Governmental instability could adversely affect the value of investments in Russia, including the Notes.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy to a pluralist democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the result of privatization in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups.

The course of reform has in some respects been uneven, and the composition of the Government—in particular, the prime minister and the other heads of federal ministries—has at times been highly unstable. For example, six different prime ministers headed governments between March 1998 and May 2000. On December 31, 1999, President Yeltsin unexpectedly resigned and Vladimir Putin was subsequently elected president on March 26, 2000 and re-elected on March 14, 2004. While President Putin has maintained governmental stability and even accelerated the reform process, he may adopt a different approach over time.

In late February 2004, President Putin dismissed Mikhail Kasyanov, the Prime Minister for most of Mr. Putin's presidency, and appointed Mikhail Fradkov as Prime Minister. Shortly after appointment of Mr. Fradkov as Prime Minister, a Presidential decree significantly reduced the number of federal ministries, redistributed certain functions among various Government agencies and announced plans for a major overhaul of the federal administrative system. For example, the Ministry of Energy, which was responsible for the practical implementation of Government fuel and energy industry policy and coordinating the activities of federal executive bodies in the energy sector, was abolished and its functions divided among the Ministry of Industry and Energy and the Federal Energy Agency.

Future changes in the Government, major policy shifts or lack of consensus between President Putin, the Government, Russia's parliament and powerful economic groups could disrupt or reverse economic and regulatory reforms. The value of investments in Russia and the Notes could be reduced and our prospects could be harmed if there is further governmental instability or if the course of reform policies does not continue.

Conflict between federal and regional authorities and other domestic political conflicts could create an uncertain operating environment that would hinder our long-term planning ability and could adversely affect the value of investments in Russia.

The Russian Federation consists of 88 sub-federal political units, some of which exercise considerable autonomy over their internal affairs pursuant to agreements with the federal authorities. In practice, the division of authority between federal and regional governmental authorities remains uncertain and contested. This uncertainty could hinder the operation and the expansion of our business.

For example, to achieve consistency in the regulation of natural gas supplies throughout Russia, the federal authorities have assumed responsibility for the development and implementation of state policy with respect to the supply of natural gas and the industrial and environmental safety of such supplies in Russia. However, regional and local authorities have a significant degree of autonomy in exercising their rights over the use of land and natural resources (including natural gas). Accordingly, the relationship between the relevant federal, regional and local authorities as well as between us and such authorities can have a significant impact on the conditions under which we can operate in any particular region. In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to communal tensions and, in certain cases, military conflict, such as the continuing conflict in Chechnya, which has brought normal economic activity within Chechnya to a halt and disrupted the economy of the neighboring regions. Various armed groups in Chechnya have regularly engaged in guerrilla attacks in that area. Violence and attacks relating to this conflict have also spread to other parts of Russia, and several terrorist attacks have been carried out by Chechen terrorists in Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures are likely to cause disruptions to domestic commerce and exports from Russia, and could materially adversely affect our business and the value of investments in Russia, such as the Notes.

Economic Risks

Economic instability in Russia could adversely affect our business.

Since the dissolution of the Soviet Union, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high state debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of “black” and “gray” market economies;
- high levels of capital flight;
- corruption and extensive penetration of organized crime into the economy;
- significant increases in unemployment and underemployment; and
- high poverty levels among the Russian population.

The Russian economy has been subject to abrupt downturns. In particular, on August 17, 1998, in the face of a rapidly deteriorating economic situation, the Russian Government defaulted on its rouble-denominated securities, the Central Bank stopped its support of the rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the rouble and a sharp increase in the rate of inflation; a dramatic decline in the prices of Russian debt and equity securities; and an inability of Russian issuers to raise funds in the international capital markets.

These problems were aggravated by the near collapse of the Russian banking sector after the events of August 17, 1998. This further impaired the ability of the banking sector to act as a consistent source of liquidity to Russian companies, and resulted in the loss of bank deposits in some cases. In recent weeks, several Russian banks experienced a sharp reduction in liquidity, and the licenses of certain of them have been withdrawn. A rapid increase in overnight interbank interest rates occurred in June 2004.

There can be no assurance that the positive trends in the Russian economy, such as the increase in the gross domestic product, a relatively stable rouble, and a reduced rate of inflation, will continue or will not be abruptly reversed. Moreover, fluctuations in international oil and natural gas prices, the strengthening of the rouble in real terms relative to the U.S. dollar and the consequences of a relaxation in monetary policy, or other factors, could adversely affect Russia's economy and our business in the future.

We face inflation and foreign exchange rate risks that could adversely affect our results of operations.

For the years ended December 31, 2003, 2002 and 2001 63%, 64% and 67% of our gross sales (including excise tax and net of VAT and customs duties), respectively, were denominated in U.S. dollars or euro, while most of our costs were denominated in roubles. The relative movement of inflation and exchange rates therefore significantly affects our results of operations. In particular, our operating margins are generally adversely affected by a real appreciation of the rouble against the U.S. dollar or euro (i.e., by an inflation rate that is higher than the rate at which the rouble is depreciating against the U.S. dollar or euro), because this will generally cause our costs to increase in real terms relative to our sales revenues. Conversely, our operating margins are generally positively affected by a real depreciation of the rouble against the U.S. dollar or euro, because this will generally cause our costs to decrease in real terms relative to our sales revenues. Continued real appreciation of the rouble against the U.S. dollar and the euro could adversely affect our financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Factors Affecting our Results of Operations—Impact of the change in purchasing power of the RR and fluctuations in RR exchange rates against the U.S. dollar and the euro."

At the same time, a high rate of inflation in Russia results in a decline in the value of our rouble-denominated monetary assets, such as rouble deposits, domestic debt instruments and accounts receivable.

We may have difficulty converting roubles into other currencies, which could adversely affect our business.

We are currently required to repatriate and convert into roubles 25% of our proceeds from export sales, though in the past this percentage has been as high as 75%. The percentage of proceeds we are required to repatriate and convert into roubles may be increased or decreased from time to time by the Russian authorities. Under legislation effective from July 7, 2003, the maximum percentage that must be converted was reduced from 50% to 30%, and on July 9, 2003 the Central Bank of Russia (the "CBR") adopted the present regulations that require the conversion of 25% of such proceeds.

A new framework law on exchange controls took effect on June 18, 2004. This law empowers the Government and the CBR to further regulate and restrict currency control matters, including operations involving foreign securities and foreign currency borrowings by Russian companies. The new law abolishes the need for companies to obtain transaction-specific licenses from the CBR, envisaging instead the implementation of generally applicable restrictions on currency control operations, such as posting mandatory reserves with the CBR and authorized banks for certain currency operations, preliminary registration of certain accounts that are opened abroad and for performing some other currency operations, and special accounts for certain foreign currency operations. The CBR has issued some regulations that introduce the rules with respect to posting mandatory reserves and certain other regulations implementing the new currency controls regime. However, CBR practice has not yet developed with respect to the application and enforcement of these new regulations.

Restrictions on our ability to convert our rouble revenues into foreign currencies, or to reconvert the roubles we obtain pursuant to the mandatory repatriation and conversion requirements, may adversely affect our business, results of operations and our ability to repay the Loan, and thus the Notes. Such restrictions may also result in a Loan Payment Suspension Event. See "—Risks Relating to the Notes, the Transaction Structure and the Trading Market—There are risks associated with the convertibility of Russian Roubles" and "—Risks Relating to the Notes, the Transaction Structure and the Trading Market—There are risks associated with exchange controls and with the imposition by the F/X Bank of

a cap on the quantum of any currency exchange transaction.” The rouble is not convertible outside the Commonwealth of Independent States, so our ability to hedge against fluctuations by converting to other currencies is significantly limited. Within Russia, our ability to convert roubles into other currencies is subject to rules and procedures that restrict the purposes for which conversion and payment in foreign currencies is allowed. In addition, because of the limited development of the foreign currency market in Russia, we may experience difficulty converting roubles into other currencies, although we have been successful to date in doing so.

Russia’s physical infrastructure is in very poor condition, which could disrupt normal business activity.

Russia’s physical infrastructure largely dates back to the Soviet period and has not been adequately funded and maintained since then. Particularly affected are the rail and road networks, power generation and transmission, communication systems and building stock. For example, during the winter of 2000-2001, electricity and heating shortages in Russia’s far-eastern Primorye region seriously disrupted the local economy. Road conditions throughout Russia are poor, with many roads not meeting minimum requirements for usability and safety. The Government is actively pursuing plans to reorganize the nation’s rail, electricity and telephone systems. These reorganizations may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The deterioration of Russia’s physical infrastructure harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Russia and can interrupt business operations, and this could have a material adverse effect on our business.

Fluctuations in the global economy may adversely affect Russia’s economy and our business.

Russia’s economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. Additionally, because Russia is one of the world’s largest producers of, and a major exporter of, natural gas and oil, the Russian economy is especially sensitive to the price of natural gas and oil on the world markets, and a decline in the price of natural gas and oil could slow or disrupt the Russian economy. These developments could severely limit our access to capital and could adversely affect the purchasing power of our customers and thus our business.

Social Risks

Crime and corruption could disrupt our ability to conduct our business and could materially adversely affect our financial condition and results of operations.

The political and economic changes in Russia since the early 1990s have resulted in reduced policing of society and increased lawlessness. Organized criminal activity has reportedly increased significantly since the dissolution of the Soviet Union, particularly in large metropolitan centers and with respect to a substantial increase in property crime in large cities. In addition, the Russian and international press have reported high levels of official corruption in Russia and the FSU, including the bribing of officials for the purpose of initiating investigations by state agencies. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions to further interests of the state and individual officials. Additionally, published reports indicate that a significant number of Russian media regularly publish slanted articles in return for payment. Our business, and the value of the Notes, could be adversely affected by illegal activities, corruption or by claims implicating us in illegal activities.

Social instability could increase support for renewed centralized authority, nationalism or violence and thus materially adversely affect our ability to conduct our business effectively.

The failure of the state and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labor and social unrest. For example, in 1998, miners in several regions of Russia, demanding payment of overdue wages, resorted to strikes that included blocking major railroads. Such labor and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralized authority; increased nationalism, with restrictions on foreign involvement in the economy of Russia; and increased violence. Any of these could restrict our operations and lead to a loss of revenue, materially adversely affecting us.

Risks Relating to the Russian Legal System and Russian Legislation

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and for business activity.

Russia is still developing the legal framework required by a market economy. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Federal Constitution, the Civil Code, by other federal laws and by decrees, orders and regulations issued by the president, the Government and federal ministries, which are, in turn, complemented by regional and local rules and regulations. These legal norms, at times, overlap or contradict one another. Several fundamental Russian laws have only recently become effective. The recent nature of much of Russian legislation and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies. In addition, Russian legislation often leaves substantial gaps in the regulatory infrastructure. Among the risks of the current Russian legal system are:

- inconsistencies among (1) federal laws, (2) decrees, orders and regulations issued by the president, the government, federal ministries and regulatory authorities and (3) regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- the relative inexperience of judges in interpreting Russian legislation;
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation;
- a high degree of discretion on the part of state authorities; and
- bankruptcy procedures that are not well developed and are subject to abuse.

All of these weaknesses could affect our ability to enforce our rights under contracts, or to defend us against claims by others.

Inexperience and lack of independence of certain members of the judiciary and the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent us or investors from obtaining effective redress in a court proceeding, including in respect of expropriation or nationalization.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remain largely untested. The court system is understaffed and underfunded. Judges and courts are generally inexperienced in the area of business and corporate law. Russia is a civil law jurisdiction and, as such, judicial precedents have no binding effect on subsequent decisions. In addition, most court decisions are not readily available to the public. Enforcement of court judgments can in practice be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims. We may be subject to such claims and may not be able to receive a fair hearing. Additionally, court judgments are not always enforced or followed by law enforcement agencies.

There are also legal uncertainties relating to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalization. However, it is possible that due to the lack of experience in enforcing these provisions and due to political changes, these protections would not be enforced in the event of an attempted expropriation or nationalization, or in the event our business is reorganized. Expropriation or nationalization of any of our entities, their assets or portions thereof, or their break-up into separate companies, potentially with little or no compensation, could have a material adverse effect on our operations and revenues, and on the value of the Notes.

Unlawful or arbitrary state action may have an adverse effect on our business.

State authorities have a high degree of discretion in Russia and at times exercise their discretion arbitrarily, without hearing or prior notice, and sometimes in a manner that is contrary to law. Moreover, the state also has the power in certain circumstances to interfere with the performance of, nullify or terminate contracts. Unlawful or arbitrary state actions have included withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations and/or to void transactions, often

for political purposes. Unlawful or arbitrary state action, if directed at us, could have a material adverse effect on our business, and on the value of the Notes.

The rights of our shareholders, the public reporting requirements and the Russian Accounting Regulations to which we are subject differ significantly from comparable listed companies in other jurisdictions.

Our corporate affairs are governed by our Charter, internal regulations adopted pursuant to our Charter and by laws governing companies incorporated in Russia. The rights of shareholders and the responsibilities of members of the Board of Directors and the Management Committee under Russian law are different from, and may be subject to certain requirements not generally applicable to, corporations organized in the United States, the United Kingdom or other jurisdictions. See “Management—Description of our Management.”

We are subject to Russian law, which contains certain regular disclosure requirements including the requirement to publish annual unconsolidated financial statements in accordance with Russian Accounting Regulations, together with an independent auditor’s report. In addition, since 1997, the Russian Ministry of Finance has required all joint stock companies that are natural monopolies to produce annual consolidated financial statements prepared in accordance with IFRS in addition to financial statements prepared in accordance with Russian accounting standards. We have published financial statements in accordance with IFRS since 1996. Due to the large number of our subsidiaries, the wide geographic range of our business and the fact that our systems and processes are tailored for Russian statutory requirements, it takes us longer than most western companies to prepare our consolidated annual and interim financial information.

In accordance with Russian legislation, we are obliged to file quarterly reports on the activities of Gazprom to the Federal Commission for the Securities Market, since March 2004 the Federal Service for Financial Markets, within 30 days of the end of the relevant quarter. Such reports include certain information about us, our management, subsidiaries, affiliates, selected financial and business information (such as events of litigation, quarterly accounts prepared in accordance with Russian accounting standards, etc.) but do not contain all of the information contained in our IFRS consolidated financial statements. We have regularly published such reports since the fourth quarter of 1998 and generally comply with the reporting requirements, although in the past we have not always met the deadlines for filing such reports.

In addition, Russian law requires certain disclosure by open joint stock companies, such as the disclosure of annual reports, annual accounts (audited and approved by shareholders), any material facts affecting the financial condition and the business of the relevant company, certain board of directors’ resolutions and lists of affiliated companies. One of our strategic priorities is to enhance our internal controls over budget planning and execution, deployment of investment capital and debt management, and to increase control over our subsidiaries. Despite these initiatives, there is nonetheless less publicly-available information about us than there is available for comparable listed companies in, for example, the United States or the United Kingdom.

The Russian Federal Commission for the Securities Market, since March 2004 the Federal Service for Financial Markets, has issued a corporate governance code and recommended that it be adopted by all Russian public companies. In light of the ongoing focus on corporate governance issues, we reviewed our own position on such issues and established a special committee headed by a First Deputy Chairman of the Management Committee to develop a corporate governance code for the Company. Such a code was adopted by our Annual Shareholders Meeting in June 2002. In addition, on September 27, 2002, our Board of Directors enacted procedures to improve the co-ordination of transactions and to increase the level of control by the Board of Directors over the work of the Management Committee. See “Certain Transactions.”

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

The Civil Code of the Russian Federation (the “Civil Code”), the Russian Federal Law “On Joint Stock Companies” No. 208-FZ dated December 26, 1995 (the “Joint Stock Companies Law”) and the Russian Federal Law “On Limited Liability Companies” No. 14-FZ dated February 8, 1998 generally provide that shareholders in a Russian joint stock company or members in a Russian limited liability company are not liable for the obligations of the joint stock company or limited liability company and bear only the risk of loss of their investment. An exception to this rule, however, is when one company

(the “effective parent”) is capable of making decisions for another company (the “effective subsidiary”). Under certain circumstances the effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions. In addition, the effective parent is secondarily liable for the effective subsidiary’s debts if the effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent. Accordingly, in our position as the effective parent of the subsidiaries in which we own, directly or indirectly, more than 50% of the charter capital, we could be liable for their debts. This liability could materially adversely affect us.

Some transactions between us and interested parties or affiliated companies require the approval of disinterested directors or shareholders and our failure to obtain such approvals could have an adverse effect.

Russian law requires a company that enters into transactions with certain types of its affiliates that are referred to as “interested party transactions” to comply with special approval procedures. Under Russian law, an “interested party” includes (i) members of the board of directors or the collegial executive body of the company; (ii) the CEO of the company (including a managing organization or manager); (iii) any person that owns, together with that person’s affiliates, at least 20% of the company’s voting shares; or (iv) a person who on legal grounds has the right to give mandatory instructions to the company, if any of the above listed persons, or a close relative or affiliate of such person, is:

- a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- the owner of at least 20% of the shares in a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction; or
- a member of the board of directors or the collegial executive body or the CEO of a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction or an officer of the managing organization of such company.

Transactions between members of a consolidated corporate group may be considered to be interested party transactions in certain circumstances, even when the companies involved are wholly-owned by the parent company. We believe that the structured export note transaction described in this Offering Circular should not require interested party transaction approval by Gazprom, because Gazprom has not executed any agreement or document (other than certain notices) with any person or entity that could be deemed an “interested party” of Gazprom (or any affiliate of any such person or entity). Moreover, no such person or entity (and no such affiliate) is benefiting from Gazprom’s obligations in the structured export note transaction described in this Offering Circular, except where any such person or entity (or affiliate) is also a shareholder of Gazprom, in which case the only benefit it is receiving is in its capacity as a shareholder and is pro rata to the benefits received by all Gazprom shareholders. However, due to the general uncertainties inherent in the Russian law concept of interested party transactions, including regarding the meaning of the terms “transaction” and “beneficiary” for such purposes, and the absence of definitive judicial guidance on this matter, there is a risk that the structured export note transaction described in this Offering Circular, or some of its elements, could be challenged on the grounds that they were not approved by Gazprom as an interested party transaction.

Under applicable Russian law, interested party transactions are to be approved by a majority of the disinterested independent members of the board of directors or the shareholders of the company. Where all the directors are interested, or are not independent, or if the subject matter of the transaction exceeds 2% of the balance sheet assets of the company determined under Russian accounting principles (with certain exceptions for share placements), a majority vote of the disinterested shareholders of the company is required. The consequences of not having obtained any requisite interested party transaction approval are that the transaction in question, including, if it is successfully challenged, the structured export note transaction described in this Offering Circular or elements of it, could be declared invalid upon a claim by the company or any of its shareholders, and the interested party in question could be held liable for damages. We consider the risk of a successful challenge of the structured export note transaction described in this Offering Circular on that basis to be remote.

The Joint Stock Companies Law has contained a requirement with respect to the approval of interested party transactions since it became effective in 1996. Under Russian law, the lack of advance approval makes such a transaction voidable, but not void. However, certain judicial practice indicated that

post factum approval of interested party transactions could be sufficient. In certain circumstances, such as when an interested party transaction was entered into between companies within our Group, the transaction was not always submitted to the boards of directors of the companies for advance approval. In 2000, 2001 and 2002, the Board of Directors of Gazprom approved certain transactions after, rather than before, they were consummated, and since 1996 the Board of Directors has never recognized any such transaction to be contrary to Gazprom's interests or denied approval thereof *post factum*. Following the revisions to the Joint Stock Companies Law that came into effect on January 1, 2002 and which explicitly require an advance approval of interested party transactions, the judicial practice in this regard has also changed. In November 2003, the Highest Arbitration Court of the Russian Federation ruled that an interested party transaction must be approved before it is entered into. Thus, we have now ceased the practice of seeking *post factum* approvals of interested party transactions.

Russian tax law is not fully developed and is subject to frequent changes which could have an adverse effect on us.

We are subject to a broad range of taxes imposed at the federal, regional and local levels, including but not limited to export duties, income tax, natural resources production tax, property tax and social taxes. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Certain Factors Affecting our Results of Operations—Our historically high tax burden."

Laws related to these taxes, such as the Tax Code, have been in force for a short period relative to tax laws in more developed market economies and the Government's implementation of these tax laws is often unclear or inconsistent. Accordingly, few precedents with regard to the interpretation of these laws have been established. Often, differing opinions regarding legal interpretation exist both between companies subject to such taxes and the Government and within Government ministries and organizations, such as the former Ministry of Taxes and Duties (the functions of which have since March 2004 been divided between the Federal Tax Service and the Ministry of Finance) and its various inspectorates, creating uncertainties and areas of conflict. Generally, tax declarations remain open and subject to inspection by tax and/or customs authorities for a period of three years following the tax year. The fact that a year has been reviewed by tax authorities does not close that year, or any tax declaration applicable to that year, from further review during the three-year period. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

The taxation system in Russia is subject to frequent change and inconsistent enforcement at the federal, regional and local levels. Until the recent adoption of the new Tax Code, the system of tax collection was relatively ineffective, resulting in the continual imposition of new taxes in an attempt to raise state revenues. There can be no assurance that the Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system. These factors, plus the potential for state budget deficits, raise the risk of a sudden imposition of additional taxes on us. This could adversely affect us.

The Russian tax system has recently been revised. The new tax system is intended to reduce the number of taxes and the overall tax burden on businesses and to simplify the tax laws. However, the revised tax system relies heavily on the judgments of local tax officials and fails to address many of the existing problems. Even if further reforms to tax legislation are enacted, they may not result in a reduction of the tax burden on Russian companies and the establishment of a more efficient tax system. Conversely, they may introduce additional tax collection measures. Accordingly, we may have to pay significantly higher taxes, which could have a material adverse effect on our business.

Risks Relating to the Notes, the Transaction Structure and the Trading Market

The Issuer's rights to receive payments under the Loan (and therefore its ability to make payments under the Notes as they fall due) and our obligations under the Gazprom Notes Guarantee are effectively subordinated to any liabilities of our subsidiaries, except for Gazexport, and could be adversely affected if any of these subsidiaries declares bankruptcy, liquidates or reorganizes.

Most of our operations are conducted through our subsidiaries and to a large extent we depend on the earnings and cash flows of these subsidiaries to meet our debt obligations, including our obligations under the Loan. In addition, our subsidiaries' assets constitute a significant part of our operating assets. Finally, our subsidiaries have significant liabilities, including accounts payable and accrued charges, taxes payable, restructured tax liabilities, other long-term liabilities and provisions for liabilities and charges. Because our subsidiaries other than Gazexport do not guarantee the payment obligations of our parent company, Gazprom, under the Loan or the Issuer's payment obligations under the Notes, neither the

Issuer nor you will have any direct claim on the cash flows or assets of our subsidiaries other than Gazexport. In the event of a bankruptcy, liquidation or reorganization of any of the subsidiaries, their creditors will generally be entitled to payment of their claims from the cash flows and assets of those subsidiaries before any cash flows or assets are made available for distribution to us as a shareholder. This may adversely affect our ability to service our payment obligations under the Loan and our Notes Guarantee.

We have borrowed under a number of secured credit facilities and we will seek to continue to incur secured debt in the future, although our ability to do so may be limited by negative pledge clauses in the Russian Federation's loan agreements with certain multi-lateral lending institutions. These clauses may also affect the Assigned Receivables.

As of December 31, 2003, 2002 and 2001, we had loans and borrowings of RR154,858 million, RR219,700 million and RR210,807 million, respectively, inclusive of current portion of long-term borrowings, that were secured by revenues from our sales of natural gas to Europe. We have not increased our borrowings secured by revenues from export supplies of natural gas to Europe since December 31, 2003. We intend to continue to borrow on a secured basis in the future. To the extent that the Issuer's rights under the Loan and the Noteholder's rights under the Notes Guarantees are not secured, they are effectively subordinated to our secured borrowings.

We understand that the Government has borrowed from the International Bank of Reconstruction and Development (the "World Bank"). We do not have access to the relevant executed agreements between the World Bank and the Government, but we understand that they are subject to the "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" dated May 30, 1995 (as amended through October 6, 1999) issued by the World Bank (the "World Bank General Conditions"), which provide that any lien created on the assets of any entity that at the time is owned or controlled by, or operating for the account or benefit of, the Government to secure "external debt" shall *ipso facto* secure the Government's obligations to the World Bank equally and ratably, and that the Government shall make express provision to that effect. "External debt" for these purposes, means any debt which is or may become payable in a currency other than the rouble.

The Government currently owns 38.37% of our shares, and our subsidiaries owned approximately 16.2% of our shares as of December 31, 2003. The Government currently exercises significant influence over us and has nominated five of the 11 current members of our Board of Directors. See "—Risks Relating to our Business—The Government has exercised, and can be expected to continue to exercise, a strong influence over our operations." Therefore there is a risk that we would be considered to be "controlled by, or operating for the account or benefit of, the Government" for purposes of the World Bank negative pledge.

Under the FAAFAs, we have created security assignments over our rights to the receivables generated under the Gas Sale Contracts. These assignments fall into two sets, the "Assignments" and the "Springing Assignments."

The first set of security assignments (the "Assignments") are in favor of the Fiduciary (for the benefit of the Issuer) and secure our rouble obligations, but not our obligations in the original currency (the "Original Currency") under the Loan (the Loan is repayable in roubles upon the election of the Trustee following a Loan Event of Default or Retention Event). Because the Assignments secure only rouble obligations, and thus may be realized by the Trustee only after the Loan becomes payable in roubles, they arguably appear to fall outside the express terms of the World Bank negative pledge.

However, the Loan is funded through matching obligations (the Notes) issued by a special purpose vehicle established for the purpose; the Loan is initially denominated in the Original Currency and can only be converted into a rouble payable obligation upon the optional exercise by the Trustee of the Rouble Repayment Election following a Loan Event of Default or Retention Event; the Assignments are made initially when the Loan is denominated in the Original Currency, rather than when the Loan becomes payable in roubles, thus protecting the receivables from other creditors from the commencement of the transaction; Original Currency funds may accumulate in the Collection Account following a Retention Event or Holding Event even if the Loan remains payable in the Original Currency and, in certain circumstances, may be applied towards the satisfaction of the Loan liabilities; the rouble amounts that may become payable under the Loan are indexed to the Original Currency/rouble exchange rate (and our obligation to pay roubles may be suspended if an Original Currency/rouble exchange rate cannot be determined); and the Transaction Documents include various mechanisms designed to provide for an exchange rate (whether or not a market rate) that would permit the Trustee to access the funds in the

Collection Account in amounts necessary to repay the Loan, and then to repay the Notes, ahead of other creditors. One such mechanism provides that if following an acceleration of the Loan the Original Currency/rouble exchange rate can be determined initially but subsequently becomes incapable of being determined, the receivables subject to the Assignment may be valued in roubles for the purposes of discharging obligations under the Loan using the Original Currency/rouble exchange rate in effect at the time of the acceleration.

The second set of security assignments (the “Springing Assignments”) can only come into force if an Event of Default has occurred and is continuing under the Notes or another creditor is seeking to attach the receivables that would be subject to the Springing Assignments. The Springing Assignments (if they come into force) will be in favor of the Fiduciary for the benefit of the Trustee and will secure our guarantee of the Issuer’s U.S. dollar-denominated obligations under the Notes. While there is the possibility that, despite various procedural requirements and conditions, other creditors may establish claims in priority to the Trustee’s security interests if and when created under the Springing Assignments (see “—Prior claims may arise under the Springing Assignments”), in practice, this will be difficult for other creditors to achieve if the Trustee complies with its obligations under the FAAFAs and virtually unachievable in the case of creditors who seek to establish claims that in the aggregate exceed a certain specified threshold, due to the nature of the springing mechanism which provides for the service on the Fiduciary on the Closing Date of a conditional notice electing to spring the Springing Assignments which, in the absence of a revocation by the Trustee of that notice, will result in the Springing Assignments coming into force within 30 days of such creditors serving a notice on the Fiduciary that starts the process of establishing such claim or claims.

The World Bank could take the view that we are controlled by, or operating for the account or benefit of, the Government. If the World Bank were to take such a view, there is a substantial risk that the World Bank could also view the security arrangements established by the Assignments and the Springing Assignments (even before the Springing Assignments come into force) as falling, in substance, if not in form, within the scope of the World Bank negative pledge. Furthermore, if and when the Springing Assignments came into force, they would fall within the scope of the World Bank negative pledge if at that time we were deemed to be an entity owned or controlled by, or operating for the account or benefit of, the Government.

The governing law of any dispute with respect to the World Bank negative pledge is unclear, because the World Bank General Conditions do not cover these matters. Although we would argue that the proposed transactions appear to fall outside the express terms of the World Bank negative pledge, no assurance can be given that the relevant adjudicatory or arbitral body would not take a similar view to the World Bank.

It is unclear what the consequences would be if any part of the transaction contemplated in this Offering Circular were to be deemed to fall within the scope of the World Bank negative pledge. Under the terms of the World Bank General Conditions, the Government could be required in these circumstances to provide for the relevant security contemplated by the Program to secure the World Bank equally and ratably with the Fiduciary or be in default of its obligations. The World Bank could, if the Government were deemed to be in default of its obligations under the World Bank negative pledge, seek to accelerate the Government’s borrowings from it. It is also possible that the World Bank could assert that such security should, without the need for action by the Government or any other person, be deemed automatically to secure the Government’s obligations to the World Bank equally and ratably, although the legal viability of this assertion is open to question. In particular it is unclear whether an agreement between a supranational entity, such as the World Bank, and a sovereign, such as the Russian Federation, could attach to an open joint stock company not party to such an agreement.

While the application of the World Bank negative pledge to us or to the structure and the consequences, should the World Bank negative pledge so apply, are uncertain, the creation of such equal and ratable security would reduce the security available to Noteholders. As at March 31, 2004, according to information made publicly available by the CBR on its website, the Russian Federation’s gross foreign exchange reserves were approximately U.S.\$76.6 billion and the Russian Federation had borrowed approximately U.S.\$6.1 billion from the World Bank.

Further, if the World Bank were to assert rights based on the World Bank negative pledge or to announce publicly its intention of doing so, or otherwise make adverse public comment with respect to the transactions contemplated by the Transaction Documents, the possibility cannot be excluded that such assertion, announcement or comment could have an adverse effect on the price of the Notes in the

secondary trading market. It could also limit our ability to continue to borrow on a secured basis generally. Neither we, nor to our knowledge the Government, has had any consultation with, or obtained any waiver from, the World Bank with respect to the World Bank negative pledge.

It is possible that the Russian Federation has borrowed from other multi-lateral lending institutions which may include provisions similar to the World Bank negative pledge in their loan documentation.

The relative significance of the credit support provided by Gazexport should be considered, and the financial information of Gazexport prepared according to Russian Accounting Regulations may not fairly reflect its financial condition or results of operations.

Gazexport is a wholly-owned subsidiary of Gazprom and its principal activity is the sale of gas into European and FSU countries under an agency contract with Gazprom, pursuant to which Gazexport acts as Gazprom's "commission agent." Under Russian law, as a commission agent Gazexport does not acquire legal title to the gas it sells on Gazprom's behalf, and may not acquire legal title to the proceeds generated by such sales. Legal title to the gas, and possibly legal title to the proceeds, rests with Gazprom, and Gazexport earns a commission on the sales it makes on Gazprom's behalf. The substantial majority of Gazexport's assets and liabilities consist of accounts receivable and accounts payable arising from its gas sales as Gazprom's commission agent, and substantially all its revenues consist of commissions on such sales. Accordingly, Noteholders should not rely unduly on the credit support provided by Gazexport through the Gazexport Notes Guarantee and the Loan Guarantee

As a wholly-owned subsidiary of Gazprom organized as a limited liability company that is consolidated into our consolidated financial statements and that has not accessed the international capital markets, Gazexport has not been required to prepare, and has not prepared, financial statements in accordance with IFRS or U.S. GAAP. Gazexport's statutory financial (accounting) reports are prepared in accordance with the Federal Law on Accounting and Regulation on Accounting and Reporting adopted by the decree of the Ministry of Finance of the Russian Federation dated July 29, 1998 ("RAR"), which are not comparable to financial statements prepared in accordance with IFRS or U.S. GAAP and are not included in this Offering Circular, but are incorporated by reference herein to the extent required by the rules of the Luxembourg Stock Exchange. Selected information derived from Gazexport's statutory financial (accounting) reports prepared in accordance with RAR has been included in this Offering Circular, and copies of its latest annual statutory financial (accounting) reports prepared in accordance with RAR may be obtained at the specified offices of the Trustee and the Paying and Transfer Agent in Luxembourg as set forth under "General Information."

Accounting and reporting regulations in Russia are not comparable to those in Western countries and Russian financial statements have historically been prepared largely to comply with Russian tax requirements rather than to reflect fairly the financial condition of a company or its results of operations. Russian accounting legislation continues to develop and is subject to change on a regular basis. Potential investors should not rely on the selected information extracted from Gazexport's statutory financial (accounting) reports prepared in accordance with RAR included in this Offering Circular or the financial statements required by the rules of the Luxembourg Stock Exchange to be incorporated by reference herein or otherwise rely on Gazexport's statutory financial (accounting) reports prepared in accordance with RAR when considering whether to invest in the Notes.

There is uncertainty surrounding laws applicable to disputes under the Transaction Documents.

The transactions surrounding the issue of the Notes (such as the transactions entered into pursuant to the Transaction Documents and the Gas Sales Contracts) involve complex issues of conflicts of law. This is because they involve parties from several different jurisdictions, contain differing choices of governing law and relate to assets situated in different jurisdictions.

Gasunie Sales Contract

In respect of the Gasunie Gas Sales Contract (1) the contract itself is governed by Swiss law, (2) the sums payable under the contract are required to be paid in U.S. dollars, (3) the creditor (Gazexport) and the debtor (Gasunie) in respect of receivables under the Gasunie Gas Sales Contract, are incorporated in Russia and The Netherlands, respectively, (4) the Assignments and Springing Assignments of the receivables under the contract are governed by Luxembourg law, and (5) the Irrevocable Payment Notice and Acknowledgement are governed by Swiss law.

The legal advice obtained in relation to the Gasunie Gas Sales Contract is that the better view is that, were a dispute to come before a Dutch court, the issue of whether the Assignments and/or the Springing

Assignments would be upheld against a third party, such as a bankruptcy receiver of, or similar party with respect to, Gazprom or Gazexport, would be a matter of Swiss law.

A Russian bankruptcy receiver of Gazprom or Gazexport could seek to enforce a Russian bankruptcy order in Switzerland by opening an ancillary bankruptcy procedure in Switzerland in order to take advantage of Swiss bankruptcy law remedies. However, this would only be possible if the bankrupt party has assets located in Switzerland. In this respect, assets such as claims are deemed located at the domicile of the debtor of the bankrupt party (under Swiss statute). Under Swiss law, the Assignments and Springing Assignments would be valid provided that a Swiss bankruptcy law remedy could not be invoked.

However, it is possible that a Dutch court would consider that the issue of whether the Assignments and Springing Assignments should be upheld against a third party would be a matter of Luxembourg law. Should the Dutch courts apply Luxembourg law, the Assignments should be found to be opposable to third parties, including foreign bankruptcy officials, since the Assignments would fall within the Luxembourg statute relating to transfer of title by way of security. In respect of the Springing Assignments see “—Prior claims may arise under the Springing Assignments.”

Eni Sales Contract

In respect of the Eni Gas Sales Contract (1) the contract itself is governed by Swedish law, (2) the sums payable under the contract are required to be paid in U.S. dollars, (3) the creditor (Gazexport) and the debtor (Eni) in respect of receivables under the Eni Gas Sales Contract, are incorporated in Russia and Italy, respectively, (4) the Assignments and Springing Assignments of the receivables under the contract are governed by Luxembourg law, and (5) the Irrevocable Payment Notice and Acknowledgement are governed by Swedish law.

The legal advice obtained in relation to the Eni Gas Sales Contract is that the better view is that, were a dispute to come before an Italian court, the Italian court would have jurisdiction over such an action and the issue of whether the Assignments and/or the Springing Assignments would be upheld against a third party, such as a bankruptcy official of Gazprom or Gazexport would be a matter of Swedish law, as the governing law of the debt.

Under Swedish law there is some uncertainty as to the proper approach to the perfection of an assignment of a receivable and the extent to which this can be achieved following bankruptcy proceedings in respect of an assignor. The issue whether the commencement of foreign bankruptcy proceedings in relation to an assignor would prevent the ongoing perfection of assignments of its receivables as and when they arise is not covered by Swedish statute and has not been the subject of case law. However, it is an established principle of Swedish law that foreign bankruptcy proceedings are not recognised or given effect to in Sweden except to a very limited extent. Although there is no Swedish statutory provision or case law on the point, it is likely that bankruptcy proceedings commenced outside the EU would not constitute bankruptcy proceedings for the purposes of the rules relating to perfection of security interests referred to above.

However, if a dispute in relation to the Assignments or the Springing Assignments of the receivables under the Eni Gas Sales Contract were to come before a Swedish court (being the jurisdiction of the governing law of the Eni Gas Sales Contract) and the Swedish court were to accept jurisdiction, it is likely that the Swedish Courts would apply Italian substantive law (as the law of the jurisdiction of incorporation of the debtor under the Eni Gas Sales Contract) to the dispute. Were Italian law found to be the applicable substantive law the Assignments and Springing Assignments would be likely to be found to be unenforceable in respect of any receivables that had not materialized as at the onset of the assignor's bankruptcy as the assignment of those receivables would not have been duly perfected by notice to the obligor (the Irrevocable Payment Notice not being effective to perfect assignment of receivables arising in the future following a bankruptcy of the assignor).

Uncertainty in matters of international private law

The law in this area is largely untested and there is little case law or statute, so there can be no assurance that the courts of any jurisdiction would apply the law in a manner consistent with the legal advice that has been obtained and summarised above.

There can be no assurance that, were a dispute to arise in relation to any of the Transaction Documents, the courts before which such a dispute would be heard would not hold that a different

substantive law should be applied. Further, there can be no assurance that the courts of one jurisdiction would apply the substantive and procedural laws of another jurisdiction (the “second jurisdiction”) in a manner consistent with the legal advice that has been obtained in relation to the way in which the courts of the second jurisdiction would apply such laws.

Prior claims may arise under the Springing Assignments.

The rights of the Trustee as a beneficiary under the Springing Assignments contained in the FAAFAs will not become effective on the date on which the FAAFAs will be executed but only upon the Trustee electing to make them effective following the occurrence of an Event of Default under the Notes or, upon the Trustee not having revoked the conditional notice electing to spring the Springing Assignments served on the Fiduciary on the Closing Date, a Special Event combined with an Inconvertibility Event which occurs within a certain period of time after the Special Event.

Until the Springing Assignments come into force the obligations of Gazexport and Gazprom under the Notes Guarantees are unsecured. The FAAFAs provide that any creditor of Gazexport or Gazprom, who prior to the springing of the Springing Assignments, subject to certain conditions, obtains in relation to an unpaid debt an attachment validated by the Luxembourg courts relating to Gazprom’s rights against the Fiduciary under the FAAFAs, will rank ahead of the Trustee upon coming into force of the Springing Assignments, though due to the nature of the springing mechanism, the possibility thereof is relatively small. Nevertheless, such an occurrence could significantly reduce the value of the security created by the Springing Assignments. Such lien or attachment will constitute a Loan Event of Default as set out in “Description of the Transaction Documents—The Loan Agreement.”

Russian bankruptcy law considerations could affect the transaction.

The priority and enforceability of claims (such as claims to the sums standing to the credit of the Collection Account pursuant to the Assignments or Springing Assignments effected by the FAAFAs) may be affected by bankruptcy, insolvency and other laws of general application relating to or affecting the rights of creditors.

While legal advice has been obtained that the better view is that the courts of Luxembourg, Italy and Switzerland would not have regard to Russian bankruptcy law in considering the enforceability of claims pursuant to the FAAFAs, there can be no assurance that such courts would not have regard to Russian bankruptcy law were a dispute to come before them, or that the courts of another relevant jurisdiction, such as The Netherlands or Sweden would not accept jurisdiction to hear such a dispute, and apply Russian bankruptcy law.

Should Russian bankruptcy law be held to be applicable, the satisfaction of creditors’ claims may be subject to a moratorium and other procedures applicable pursuant to Federal Law No. 127-FZ of October 26, 2002 “On Insolvency (Bankruptcy)” (the “Insolvency Law”). Moreover, claims secured by the Assignments or the Springing Assignments are unlikely to be regarded as secured claims for Russian bankruptcy law purposes.

Further, Article 103 of the Insolvency Law provides that certain transactions entered into by a debtor before an external administrator or receiver is appointed may be rendered invalid by the court. In particular, a transaction with a particular creditor or creditors entered into in the six months preceding the filing of the bankruptcy petition (the “hardening period”) may be rendered invalid if it leads to the preferential satisfaction of such creditor’s claims vis-à-vis other creditors (as would enforcement of the Assignments or Springing Assignments). Although this rule may only be applicable to new transactions with existing creditors, rather than to the performance of existing obligations in accordance with their terms, there can be no assurance that the courts would not give this provision a wider interpretation and hold that it applies to “transactions” entered into in the performance of existing obligations, i.e. in performance of obligations entered into prior to the hardening period.

An external manager appointed in a bankruptcy of Gazprom or Gazexport may seek to disclaim executory contracts such as the Gas Sales Contracts. Article 102 of the Insolvency Law requires that, in order for such a right of cancellation to arise, the contract which is proposed to be cancelled must result in a “loss” for the debtor, compared to the terms available in the market for similar transactions. This may be difficult for an external administrator to establish in the case of the Gas Sales Contracts since the contracts are on market terms and the prices are indexed to market rates. We are not aware of any court practice which would suggest that existence of an encumbrance over a contract (as opposed to the terms

of the contract as such) can be taken into account in determining whether performance of a contract can be refused. However, there can be no guarantee that this provision would not be applied to the Gas Sales Contracts or any of Gazprom's or Gazexport's continuing obligations under the Transactions Documents.

There are limitations on rights of enforcement in the Russian Federation.

The availability of legal remedies and their practical enforcement may be limited and may depend on the discretion of the courts of the Russian Federation and bailiffs, or other factors not expressly described in legislation. In particular, there may be practical difficulties in obtaining a specific performance of certain obligations or technical problems in receipt of amounts payable in foreign currency.

Where obligations are to be performed in a jurisdiction outside the Russian Federation, they may not be enforceable in the Russian Federation to the extent that performance would be illegal under the laws of, or in breach of any exchange control or other regulations of, that jurisdiction.

There are risks associated with the convertibility of Russian Roubles.

No market rate for conversion of the original currency of the loan into RR and *vice versa* may be available.

Following the making of the RR Repayment Election, the RR amounts payable under the Loan Agreement are determined by reference to the exchange rates for RR and the original currency of the Loan. The F/AFA to which Gazprom is a party (the "Gazprom F/AFA") provides for the F/X Bank to provide the rates of exchange by reference to which the determination of the RR amounts is made. However, the F/X Bank shall only quote a rate of exchange if it would not involve illegality or lead to Adverse Regulatory Consequences if the F/X Bank were to enter into the relevant trade (and subject to the F/X Cap (as defined below)). Should the F/X Bank not provide a quote, it is required to inform Gazprom, the Trustee and the Rating Agencies, and such absence of a quote would constitute a Loan Payment Suspension Event (unless another entity which satisfied the criteria set out in the F/AFAs (an "Alternative F/X Bank") provides a quote), which would continue until such time as the F/X Bank (or an alternative F/X Bank) quotes a rate of exchange.

For so long as a Loan Payment Suspension Event is continuing, no payments of interest or principal will be paid under the Loan and, consequently, the Issuer will have recourse only to the funds standing to the credit of the Debt Service Reserve Account. Such funds may not be sufficient to make payments due under the Notes in full for the duration of such Loan Payment Suspension Event. In addition, if following a Rouble Repayment Election there is a Loan Payment Suspension Event, the ability of the Trustee to enforce the Assignments may be delayed or otherwise adversely affected due to the inability to quantify the Rouble Equivalent of the amounts due. However, if following an acceleration of the Loan the Original Currency/rouble exchange rate can be determined initially but subsequently becomes incapable of being determined, the receivables subject to the Assignment may be valued in roubles for the purposes of discharging obligations under the Loan using the Original Currency/rouble exchange rate in effect at the time of the acceleration.

There are risks associated with exchange controls and with the imposition by the F/X Bank of a cap on the quantum of any currency exchange transaction.

If the Trustee makes the RR Repayment Election, interest and principal on the Loan will become payable only in RR.

The Gazprom F/AFA contains an agreement by the F/X Bank to provide foreign exchange facilities to Gazprom (or, upon enforcement, the Trustee) to enable it to exchange U.S. dollars standing to the credit of the Collection Account into RR at the rate of exchange which is used to determine the amount of RR payable under the Loan in respect of such tranche.

The Gazprom F/AFA also contains an agreement by the F/X Bank to provide foreign exchange facilities to the Issuer to enable it to exchange the RR it receives from Gazprom pursuant to the Loan into the currency of the Notes in order to allow it to meet its obligations under the Notes if an exchange rate is available relative to such trades.

However, the Gazprom F/AFA permits the F/X Bank to specify a cap (an "F/X Cap") on the quantum of any single leg foreign exchange transaction which it may enter into pursuant to the Gazprom F/AFA. Further, if the Russian government or another relevant government were to adopt measures, such as a moratorium or imposition of exchange controls, among others, having the effect of prohibiting

the F/X Bank from entering into the particular foreign exchange transaction requested pursuant to the Gazprom FAAFA, the F/X Bank has no obligation to enter into such transaction.

While the F/X Bank is a Luxembourg entity and is not regulated by the CBR, the imposition of an F/X Cap by the F/X Bank, or such governmental measures in relation to a foreign exchange transaction, could result in Gazprom, the Trustee or the Issuer not having sufficient funds in the correct contractual currency to meet their respective obligations under the Transaction Documents and a consequent delay or failure in making payments due to Noteholders.

The credit risk and set-off rights of Gasunie and Eni should be taken into account.

In certain circumstances, repayment of the Loan or the Notes may depend in part on the amounts required to be paid by Gasunie and Eni under the Gas Sales Contracts, Gazprom's and Gazexport's rights under which have been assigned to the Fiduciary and comprise Assigned Receivables (as defined herein). See "Description of Transaction Documents." A material adverse change in the business, results of operations or financial condition of Gasunie or Eni could adversely affect its ability to make timely payments under the Gas Sales Contract to which it is a party, which could in turn adversely affect the ability of the Issuer to receive payments under the Loan and/or the ability of Noteholders to receive payments under the Notes. While Gazprom and Gazexport have never previously experienced material payment difficulties in respect of counterparty payments under the Gas Sales Contracts, there can be no assurance that Gasunie or Eni will not suffer material adverse change in their respective businesses that would negatively affect their respective abilities to make timely payments under the Gas Sales Contracts.

In addition, Gasunie has retained the right to set-off up to 25% of any invoice where it is owed unpaid liabilities by Gazprom, Gazexport or their affiliates or successors that are unrelated to the Gasunie Gas Sales Contract. Each of Gazprom and Gazexport has represented and warranted that no such unpaid liabilities exist as at the date of this Offering Circular and have undertaken to notify the Issuer, the Trustee and the Rating Agencies should a contract potentially giving rise to such right of set-off be entered into during the life of the Notes. Such a set-off, should it occur, could reduce the amount of funds forming part of the Assigned Receivables.

The bases on which the Gas Buyer Information and the Independent Consultant's Report were prepared should be considered.

The Gas Buyer Information has not been prepared in connection with the offering of the Notes but has been derived from public sources, and the Independent Consultant's Report has been prepared by Gas Strategies Ltd. in connection with the offering of the Notes on the basis of publicly available information and analyses conducted by Gas Strategies. None of Gasunie, Eni or Gas Strategies has participated in the preparation of this Offering Circular or in establishing the terms of the Notes. Consequently, there can be no assurance that all events occurring prior to the date hereof (including events that would affect the accuracy or completeness of the Gas Buyer Information) or, in the case of the Independent Consultant's Report, after the date of such report, that would affect the trading price of the Notes have been publicly disclosed. Subsequent disclosure of any such events or the disclosure of or failure to disclose, material future events concerning Gasunie, Eni or with respect to the matters discussed in the Independent Consultant's Report could affect the value of the Assigned Receivables and therefore the trading price of the Notes.

The lack of a public market for the Notes could reduce the value of your investment.

There may not be an existing market for the Notes at the time they are issued. The Notes are expected to be listed on the Luxembourg Stock Exchange. However, there can be no assurance that a liquid market will develop for the Notes, that holders of the Notes will be able to sell their Notes, or that such holders will be able to sell their Notes for a price that reflects their value.

Payments under the Loan or the Loan Guarantee may be subject to Russian withholding tax.

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal person are subject to Russian withholding tax at the rate of 20%, subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on professional advice we have received, we believe that payments of interest on the Loan should not be subject to withholding under the terms of the double tax treaty between Russia and Luxembourg. However, there can be no assurance that such relief will be obtained.

Payments relating to interest made to the Issuer under the Loan Guarantee may be treated as Russian source income that is subject to withholding tax at a rate of 20%, subject to reduction or elimination pursuant to the terms of an applicable double tax treaty.

If payments under the Loan or the Loan Guarantee are subject to any withholding of Russian tax, Gazprom, or if applicable, Gazexport would be obliged to increase payments as may be necessary so that the net payments received by the Noteholders would not be less than the amounts they would have received in the absence of such withholding. However, gross-up provisions may not be enforceable under Russian law. As a result, there is a risk that payments under the Loan or Loan Guarantee will be reduced by Russian withholding tax. If Gazprom, or if applicable, Gazexport is obliged to increase payments under the Loan or the Loan Guarantee, we may, subject to certain conditions, prepay the Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest. See “Terms and Conditions of the Notes.”

Tax might be withheld on dispositions of the Notes in Russia, reducing their value.

If a non-resident holder that is a legal person or organization sells any Notes and receives proceeds from a source within Russia, there is a risk that the part of the payment, if any, representing accrued interest may be subject to a 20% Russian withholding tax. Where proceeds from a disposition of the Notes are received from a source within Russia by an individual non-resident holder, a similar withholding tax would be charged at a rate of 30% on gain from the disposition. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes.

Payments under the Notes Guarantees may be subject to Russian withholding tax.

Payments to a non-resident holder of the Notes by Gazprom or Gazexport under the Notes Guarantees may be characterized as Russian source income and subject to Russian withholding tax at the rate of 30% (in the case of a holder who is an individual) or 20% (if the holder is not an individual) at the source of payment in Russia, absent reduction or elimination pursuant to the terms of an applicable double tax treaty.

However, double tax treaty relief may not be available if a Russian source payment is made to a person other than the beneficial owner of the payment. As a result, payments under the Notes Guarantees to the Trustee may be subject to Russian withholding tax, and Noteholders may be unable to obtain a refund of the tax withheld.

If payments under the Notes Guarantees are subject to Russian withholding tax, Gazprom, or if applicable, Gazexport would be obligated to increase payments as may be necessary so that the net payments received by the Noteholders would not be less than the amounts they would have received in the absence of such withholding. However, gross-up provisions may not be enforceable under Russian law. As a result, there is a risk that the gross-up for withholding tax will not take place and that payments under the Notes Guarantees will be reduced by Russian withholding tax.

Financial instability in emerging markets could cause the price of the Notes to suffer.

Financial instability in Russia and other emerging market countries in 1997 and 1998 adversely affected market prices in the world's securities markets for the debt and equity securities of companies that operate in those countries. Financial instability in emerging market countries other than Russia could adversely affect the market price of the Notes, even if the Russian economy remains relatively stable.

USE OF PROCEEDS

The proceeds from the offering of the Notes will be used by the Issuer for the sole purpose of financing a Loan to us. The net proceeds of the Loan, expected to be approximately U.S.\$1,223,425,000 after taking account of commissions and expenses, will be used by us for general corporate purposes.

CAPITALIZATION

The following table shows our consolidated cash and cash equivalents and certain restricted cash, short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable and total capitalization, consisting of long-term borrowings, long-term promissory notes payable and shareholders' equity, as of December 31, 2003, extracted from our audited consolidated financial statements as of and for the year ended December 31, 2003 and as adjusted to give effect to the application of the net proceeds of the offering as described under "Use of Proceeds." For further information regarding our financial condition, see "Selected Consolidated Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial information included elsewhere in this Offering Circular.

The U.S. dollar amounts set forth below were not included in our annual audited consolidated or unaudited consolidated interim condensed financial information and are provided for convenience only. They should not be construed as representations that the Rouble amounts have been or could be converted into U.S. dollars at that or any other rate or as being representative of U.S. dollar amounts that would have resulted if we reported in U.S. dollars. The U.S. dollar amounts have been translated from the RR amounts at the rate of RR29.45 = U.S.\$1.00, which is the rate published by the Central Bank of Russia on December 31, 2003.

	As of December 31, 2003	As adjusted
	(millions of RR)	(millions of U.S.\$)⁽²⁾⁽³⁾
Cash and cash equivalents and certain restricted cash ⁽¹⁾	95,726	4,501
Short-term borrowings and current portion of long-term borrowings	170,622	5,794
Short-term promissory notes payable	27,433	932
Total	198,055	6,725
Long-term borrowings	303,755	10,314
Long-term promissory notes payable	13,715	466
Total shareholders' equity, of which:	1,855,130	62,993
Share capital ⁽⁴⁾	325,194	11,042
Treasury shares	(33,889)	(1,151)
Retained earnings and other reserves	1,563,825	53,101
Total capitalization ⁽⁵⁾	2,172,600	75,023

Notes:

- (1) Includes cash restricted as to withdrawal under the terms of certain borrowings and other contractual obligations but excludes cash restricted as to withdrawal under banking regulations.
- (2) Unaudited.
- (3) Adjusted to give effect to the proceeds of the Loan but not adjusted to give effect to any other changes subsequent to December 31, 2003. The proceeds of U.S.\$1.25 billion, before taking account of commissions and expenses, have been credited to cash pending their use for general corporate purposes.
- (4) Authorized, issued and paid-in share capital consists of 23.7 billion ordinary shares, each with a historical par value of RR5.
- (5) Totals may not add due to rounding.

In January 2004, we received U.S.\$200 million of borrowings under a loan facility with Commerzbank that expires in 2009 at an interest rate of LIBOR + 2.75%. In February 2004, we issued RR10 billion documentary bonds due in 2007 at an interest rate of 8.0%. In April 2004, AB Gazprombank (ZAO) received U.S.\$275 million of borrowings under a one-year syndicated loan, with an option by AB Gazprombank (ZAO) to extend the loan for one year, with ABN AMRO Bank N.V. and Deutsche Bank AG at an interest rate of LIBOR + 1.8%. In April 2004, we issued U.S.\$1.2 billion of Loan Participation Notes due 2034 at an interest rate of 8.625% and that carry a put option on April 28, 2014 under our U.S.\$5 billion Programme for the Issuance of Loan Participation Notes established on September 22, 2003. In April 2004, we received U.S.\$200 million of borrowings under a three-year syndicated loan with ABN AMRO Bank N.V. at an interest rate of LIBOR + 2.75%. In July 2004, we received U.S.\$200 million of borrowings under a three-year syndicated loan with ABN AMRO Bank N.V. at an interest rate of LIBOR + 2.75%. There have been no other material changes in our total capitalization since December 31, 2003.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information set forth below shows our historical consolidated financial information as of December 31, 2003, 2002 and 2001 and for the years then ended. The annual consolidated financial information as of December 31, 2003, 2002 and 2001 and for the years then ended has been extracted from, and should be read in conjunction with, the annual audited consolidated financial statements included elsewhere in this Offering Circular. The annual consolidated financial information should also be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” below.

Our annual consolidated financial statements have been prepared in accordance with IFRS, including IAS and Interpretations issued by the International Accounting Standards Board. IFRS differs in certain respects from U.S. GAAP. For a summary of certain differences between IFRS and U.S. GAAP that are relevant to us, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Summary of Certain Differences between IFRS and U.S. GAAP.”

All RR amounts related to financial information for periods prior to 2003 are expressed in constant RR as of December 31, 2002 purchasing power, unless otherwise noted. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from January 1, 2003, we no longer apply the provisions of IAS 29. Accordingly, no adjustment for the effects of changes in general purchasing power have been made for periods starting from January 1, 2003.

For periods up to and including December 31, 2002, the impact of stating our financial information in terms of the measuring unit as of December 31, 2002 was to:

- inflate current period transactions recorded in the statement of operations of the local statutory books by the average rate of inflation for the period in order to state them in terms of the purchasing power of the RR as of the balance sheet date (i.e., using the average inflation factor of 1.0638 for all relevant transactions in the year ended December 31, 2002);
- restate the period end non-monetary assets and liabilities and shareholders’ equity, including share capital, in terms of the measuring unit current as of the period end; and
- restate all comparatives, both monetary and non-monetary items, in terms of the purchasing power of the RR as of December 31, 2002.

The restatement of all comparatives, in particular, had a significant impact on our reported sales and operating profit. For example, domestic sales expressed in constant RR decreased when increases in nominal prices were lower than inflation and increased less than might otherwise be expected even when increases in nominal prices were higher than inflation. Our ability to increase the prices we charge for our natural gas sales in the domestic market is constrained by Government regulations. Moreover, the impact of U.S. dollar and euro price increases for our export sales was offset in recent periods, and the impact of U.S. dollar and euro price decreases was magnified in recent periods, by the real appreciation of the RR (i.e., by a rate of inflation that is higher than the rate at which the RR is depreciating against the U.S. dollar or euro). As a result, our reported sales lagged behind the changes in our actually realized prices in nominal terms. On the other hand, our costs, which are mainly in RR and are generally not regulated, have tended to increase in line with or even above inflation in recent periods.

In addition, the restatement of all comparatives had a significant impact on our debt balances. For example, even though we borrowed more than we repaid during the years ended December 31, 2002 and 2001, the restatement of our comparatives into current purchasing power resulted in our reported debt balances having declined at each period end until December 31, 2002. (The ratios we show below are not affected by this, because the other components of the ratios are subject to similar adjustments.)

The U.S. dollar amounts set forth below were not included in our annual and interim consolidated financial information and are provided for convenience only. They should not be construed as representations that the RR amounts have been or could be converted into U.S. dollars at that or any other rate or as being representative of the U.S. dollar amounts that would have resulted if we reported in U.S. dollars. The U.S. dollar amounts have been translated from the RR amounts at the rate of $RR29.45 = U.S.\$1.00$, which is the rate published by the Central Bank of Russia on December 31, 2003.

	Year ended December 31,					
	2003		2002		2001	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
Statement of Operations	(amounts in millions)					
Sales	27,835	819,753	21,891	644,687	24,209	712,967
Operating expenses, of which	(20,150)	(593,415)	(16,866)	(496,713)	(17,210)	(506,843)
Depreciation	(3,384)	(99,648)	(3,173)	(93,454)	(3,391)	(99,868)
Provisions ⁽¹⁾	(519)	(15,298)	(241)	(7,104)	(1,455)	(42,863)
Operating profit	7,686	226,338	5,025	147,974	6,999	206,124
Net interest expense ⁽²⁾	(577)	(17,006)	(633)	(18,629)	(975)	(28,718)
Net monetary effects and other financing items ⁽³⁾	650	19,147	1,217	35,853	1,740	51,229
Other ⁽⁴⁾	288	8,495	19	556	105	3,094
Profit tax (expense) benefit, of which	(2,540)	(74,817)	(4,622)	(136,132)	(7,239)	(213,191)
Current profit tax expense	(1,439)	(42,368)	(1,840)	(54,187)	(3,224)	(94,957)
Deferred profit tax (expense) benefit	(1,102)	(32,449)	(2,782)	(81,945)	(4,015)	(118,234)
Minority interest	(104)	(3,062)	(23)	(667)	(181)	(5,339)
Net profit	5,402	159,095	983	28,955	448	13,199

	As of December 31,					
	2003		2002		2001	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
Balance Sheet	(amounts in millions)					
Assets						
Total current assets, of which	20,389	600,462	16,474	485,159	19,045	560,877
Cash and cash equivalents and restricted cash ⁽⁵⁾	3,250	95,726	3,089	90,979	3,096	91,163
Total long-term assets, of which	73,468	2,163,625	69,769	2,054,703	67,073	1,975,313
Property, plant and equipment	67,021	1,973,781	62,997	1,855,276	60,543	1,783,004
Liabilities and equity						
Total current liabilities, of which	14,470	426,127	14,565	428,938	17,516	515,836
Taxes payable	3,525	103,799	3,630	106,891	4,373	128,787
Short-term borrowings and current portion of long-term borrowings	5,794	170,622	6,276	184,823	6,557	193,090
Short term promissory notes payable	932	27,433	1,405	41,384	2,391	70,402
Total Long term liabilities, of which	15,893	468,037	13,205	388,875	10,161	299,254
Long term borrowings	10,314	303,755	8,442	248,603	8,062	237,413
Long term promissory notes payable	466	13,715	687	20,218	484	14,259
Restructured tax liabilities	208	6,111	360	10,592	746	21,957
Minority interest	502	14,793	346	10,177	590	17,387
Total Shareholders' equity	62,993	1,855,130	58,128	1,711,872	57,851	1,703,713

As at and for the year ended December 31,						
	2003		2002		2001	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
<i>Certain Items and Ratios</i>						
	(amounts in millions, except ratios)					
Adjusted EBITDA ⁽⁶⁾	11,040	325,125	7,848	231,121	10,655	313,785
Gross interest expense ⁽⁷⁾	(1,097)	(32,301)	(994)	(29,265)	(1,457)	(42,902)
Net interest expense ⁽²⁾	(577)	(17,006)	(633)	(18,629)	(975)	(28,718)
Total debt ⁽⁸⁾	17,713	521,636	17,169	505,620	18,238	537,121
Net debt ⁽⁹⁾	14,462	425,910	14,079	414,641	15,143	445,958
Adjusted EBITDA/Gross interest expense	10.07		7.90		7.31	
Adjusted EBITDA/Net interest expense	19.12		12.41		10.93	
Net debt/Adjusted EBITDA	1.31		1.79		1.42	

Notes:

- (1) Includes impairment provisions for accounts receivable and prepayments, assets under construction, investments and other long-term assets and inventory obsolescence.
- (2) Gross interest expense less interest income.
- (3) Monetary gain, exchange gains and gains on and extinguishment of restructured liabilities, less exchange losses. Monetary gain reflects the effect of inflation on our net monetary liability position as a result of the application of IAS 29 prior to 2003.

On September 3, 1999 the Government issued regulation #1002 allowing certain companies to negotiate the restructuring of various overdue taxes, interest and fines due to the federal government authorities over ten years. Interest accrues on the restructured tax payables (excluding interest and fines) at a rate of 5.5% per annum, representing 1/10 of the Central Bank of Russia's annual refinancing rate (55%) as specified in the regulation, and is paid quarterly. Current tax payments must be made timely. If the terms of the restructuring are violated, the original nominal value of the tax payable (including interest and fines) becomes due with additional interest of 1/300 of the Central Bank refinancing rate accruing for each day since the restructuring agreement.

Certain of our subsidiaries have signed such restructuring agreements. This resulted in the recognition of a gain in each of the respective periods based on the difference between the estimated fair value of the new agreements (based on discounted future cash flows) and the carrying amount of the old payables. This gain is reflected in gain on restructured taxes. Following the restructurings, we recognize the amortization of the discount and the interest accruing under the restructuring agreements as interest expense on taxes payable, which also includes interest that accrues when tax payments are overdue.

- (4) Share of net income (losses) of associated undertakings and gains (losses) on available-for-sale investments.
- (5) Cash and cash equivalents and certain restricted cash include balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations but exclude cash restricted as to withdrawal under banking regulations.
- (6) Operating profit plus depreciation and the provisions referred to in note 1 above except for provisions for accounts receivable and prepayments. Provisions for accounts receivable and prepayments were RR16,159 million, RR17,411 million and RR35,070 million for the years ended December 31, 2003, 2002 and 2001, respectively. Adjusted EBITDA should not be considered as an alternative to net profits, operating profit, net cash provided by operating activities or any other measure of performance under IFRS.
- (7) Interest expense on taxes payable, short- and long-term debt and other interest expense, excluding capitalized interest on borrowings. See note 3 above for an explanation of interest expense on taxes payable.
- (8) Short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities.
- (9) Total debt less cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations as of December 31, 2003, 2002 and 2001 and the years then ended in conjunction with our audited financial statements as of and for the years ended December 31, 2003, 2002 and 2001. The Consolidated Financial Statements and the related Notes thereto have been prepared in accordance with IFRS, which differ in certain respects from generally accepted accounting principles applied in the United States. For a summary of certain differences between IFRS and U.S. GAAP that could be significant to Gazprom, see "Summary of Certain Differences Between IFRS and U.S. GAAP." All RR amounts related to financial information for periods prior to January 1, 2003 are expressed in constant RR as of December 31, 2002 purchasing power, unless otherwise noted. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from January 1, 2003, we no longer apply the provisions of IAS 29. Accordingly, no adjustment for the effects of changes in general purchasing power have been made for periods starting from January 1, 2003. The U.S. dollar amounts, except as indicated, have been translated from the RR amounts at the rate of RR29.45 = U.S.\$1.00, which is the rate published by the Central Bank of Russia on December 31, 2003.

Overview

We are the world's largest natural gas company, and the world's largest publicly-traded hydrocarbons company, in terms of reserves, transportation and production volumes. Our revenues are primarily derived from sales of natural gas to western and central Europe, Russia and other former Soviet Union countries.

We divide our operations into the following four main business segments:

- Production (referred to elsewhere in the Offering Circular as "Exploration and Production"): exploration, development and production operations relating to natural gas and other hydrocarbons. These activities are primarily located within Russia.
- Refining: processing and refining of natural gas, gas condensate and other hydrocarbons (including crude oil), and sale of hydrocarbon products. Operations relating to refining of natural gas, gas condensate and oil increased during 2001 due to our acquisition of OAO AK Sibur ("Sibur") (see "—Certain Acquisitions and Dispositions"). Sibur's operations significantly increased in the year ended December 31, 2003 following the completion of bankruptcy procedures in September 2002.
- Transportation: transportation of natural gas through the world's largest high-pressure trunk pipeline system (151,600 km). We own and operate a single centrally controlled system for natural gas production, processing, transportation, storage and deliveries. Beginning in the late 1990s, we began acquiring interests in gas distribution companies that own and operate medium-and low-pressure pipelines.
- Distribution (referred to elsewhere in the Offering Circular as "Marketing"): domestic and export sale of natural gas. We are the world's largest exporter of natural gas.

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

Our four main business segments are mutually dependent, with a significant portion of the revenues of one segment comprising a part of the costs of another segment. In particular, our Distribution and Refining segments purchase natural gas from our Production segment and transportation services from our Transportation segment. We establish internal transfer prices to provide for the funding requirements of our individual subsidiaries within each segment. Accordingly, the results of operations of these segments on a stand-alone basis do not necessarily represent that segment's underlying financial position and results of operations as if it were a stand-alone business. For this reason, we do not analyze any of our main segments separately in the discussion that follows.

Critical Accounting Policies

Our financial statements reflect the selection and application of accounting policies that require management to make significant estimates and assumptions. We believe that the following are some of the most critical accounting policies that currently affect our financial condition and results of operations.

Gas and oil exploration and production activities

Gas and oil exploration and production activities are accounted for in accordance with the successful efforts method as it provides timely accounting of the success or failure of our exploration and production activities. Under the successful efforts method, costs of successful development and exploratory wells are capitalized. Costs of unsuccessful exploratory wells are expensed upon determination that the well does not justify commercial development. Other exploration costs are expensed as incurred.

Assets associated with exploration and production activities are depreciated on a straight-line basis calculated on the basis of cost. IFRS does not specifically require the use of the units-of-production method for the depreciation, depletion and amortization of gas production assets, primarily because there is no specific accounting standard for oil and gas producing companies. In making our estimates of depreciation, and considering the corresponding asset lives, we include in proved reserves those reserves that relate to quantities that will be produced beyond the initial license period date in circumstances where we have both the right to request and the intent to renew the license. A significant increase or decrease in reserves or the terms of our licenses could result in shorter or longer estimated useful lives for depreciation of assets.

Impairment provision for accounts receivable

The impairment provision for accounts receivable is based on our assessment of the collectibility of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than our estimates, the actual results could differ from these estimates.

Impairment of other assets and accounting for provisions

At each balance sheet date we assess whether there is any indication that the recoverable amount of our assets has declined below the carrying value. The recoverable amount is the higher of an asset's net selling price and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the consolidated statement of operations in the period in which the reduction is identified. If conditions change and management determines that the asset value has increased, the impairment provision will be fully or partially reversed.

Our accounting for impairment includes provisions against capital construction projects, investments, other long-term assets and inventory obsolescence. The provisions for liabilities and charges primarily include provisions for guarantees, environmental and pension liabilities. We record impairment or accrue these provisions when our assessments indicate that it is probable that a liability has been incurred or an asset will not be recovered, and an amount can be reasonably estimated. Our estimates for provisions for liabilities and charges are based on currently available facts and our estimates of the ultimate outcome or resolution of the liability in the future. Actual results may differ from our estimates, and our estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure.

Because of our operating cycle, certain significant decisions about capital construction projects are made after the end of our fiscal year. Accordingly, we typically have larger impairment charges or releases in the fourth quarter of our fiscal year as compared to other quarters. For example, in 2003 we recorded a fourth quarter impairment provision release of RR5,701 million related to assets under construction compared to a RR3,923 million impairment provision for the first nine months of 2003. In 2002 we recorded a fourth quarter impairment provision release of RR6,883 million related to assets under construction compared to a nil impairment provision for the first nine months of 2002.

Interest costs on borrowings

We capitalize interest costs on borrowings as part of the cost of assets under construction during the period required to prepare the assets for their intended use. All other borrowing costs are expensed. IFRS permits but does not require the capitalization of borrowing costs for qualifying assets. We capitalize borrowing costs that relate to funds borrowed specifically for, and funds borrowed generally and deemed to be used for, the purpose of assets under construction. For general borrowings, the borrowing costs eligible for capitalization are determined by applying a capitalization rate to the cumulative expenditures on assets under construction. This rate represents the weighted average of the borrowing costs applicable to the general borrowings. The amount of interest costs capitalized is primarily affected by the level of capital expenditures for assets under construction, interest rates and total borrowings.

Profit tax and other taxes

Tax legislation in the Russian Federation is subject to varying interpretations and frequent changes.

Deferred tax assets and liabilities are calculated in respect of temporary differences using a balance sheet liability method. Deferred tax is 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 future taxable profit will be available against which the deductible temporary differences can be utilized. 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.

Site restoration and environmental costs

Site restoration costs that may be incurred by us at the end of the operating life of certain of our facilities and properties are recognized when we have a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The cost is depreciated through our statement of income on a straight-line basis over the asset's productive life.

IFRS prescribes the recording of liabilities for these costs. Estimating the amounts and timing of those obligations that should be recorded requires significant judgment. This judgment is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration are subject to change because of change in laws and regulations, and their interpretation.

Certain Factors Affecting our Results of Operations

The primary factor that affects our results of operations is the price for which we can sell our natural gas and other hydrocarbon products, both internationally and in Russia. Other factors affecting our results are:

- the impact of fluctuations in RR exchange rates against the U.S. dollar and euro and, prior to 2003, of changes in the purchasing power of the RR resulting from inflation in Russia;
- our high tax burden;
- interest rates and discounts on promissory notes;
- non-cash settlements; and
- impairment of assets.

The export price of natural gas

Our results of operations are heavily reliant on natural gas export prices. Prices for the natural gas we export increased considerably in 2001 in U.S. dollar terms (although they declined in constant RR terms in 2001), and then declined during the first six months of 2002, and increased for the last six months of 2002 and the year ended December 31, 2003. Export gas prices to European countries are indexed mainly to oil product prices as stipulated in long-term contracts and, therefore, fluctuate based on world oil prices. Due to the formulae underlying our long-term contracts, our prices are not as volatile on a short-term basis as spot oil prices and tend to lag upward and downward movements in oil prices by approximately six to nine months.

Our business requires significant ongoing capital expenditures in order to maintain our production and transportation systems. An extended period of low gas prices would limit our ability to maintain an adequate level of capital expenditures, which in turn could limit our ability to maintain current levels of production and deliveries of gas, adversely affecting our results.

The European Union Gas Directive of June 22, 1998, and the new Gas Directive of June 26, 2003 that replaced it, have established common rules for the transmission, distribution, supply and storage of natural gas in the European market and may cause substantial changes to existing European market structures and to the overall level and volatility of prices. See "Gazprom—Marketing—Europe—Western Europe" and "Gazprom—Competition—Western Europe."

Natural gas export prices for sales to FSU countries are generally based on one-year fixed price contracts. Average natural gas export prices to FSU countries are more than 50% below the level of those

for European countries. This is partly due to lower transportation costs and excise tax burdens but is principally due to the impact of intergovernmental agreements, which effectively limit the prices we can charge to FSU countries.

The weather is another factor affecting demand for and, therefore, the price of natural gas. Changes in weather conditions from year to year can influence demand for natural gas and to some extent gas condensate and oil products.

We do not enter into any significant hedging arrangements to mitigate the price risk of our sales activities.

The following table shows our average natural gas export price to Europe and FSU countries (including excise tax and net of VAT) for the years ended December 31, 2003, 2002 and 2001:

	Year ended December 31,		
	2003	2002	2001
	(including excise tax, net of VAT and customs duties)		
Our natural gas export price to Europe (average actual realized U.S.\$ per mcm) ⁽¹⁾	123.9	102.5	122.6
Our natural gas export price to Europe (average actual realized U.S.\$ per mcf) ⁽¹⁾	3.5	2.9	3.5
Our natural gas export price to Europe (average constant RR per mcm, except for 2003 amount which is in nominal RR)	3,782.3	3,369.0	4,100.0
Our natural gas export price to FSU countries (average actual realized U.S.\$ per mcm) ⁽²⁾	40.9	45.4	41.5
Our natural gas export price to FSU countries (average actual realized U.S.\$ per mcf) ⁽²⁾	1.2	1.5	1.2
Our natural gas export price to FSU countries (average constant RR per mcm, except for 2003 amount which is in nominal RR)	1,256.6	1,444.2	1,417.5

Notes:

- (1) Average actual realized nominal prices and not convenience translations of constant RR prices.
- (2) Average actual realized nominal prices and not convenience translations of constant RR prices, except sales to Belarus, which are made in RR and for the purposes hereof converted to dollars at the end of each month at the exchange rate then in effect.

Regulation of domestic natural gas prices and transportation tariffs

Natural gas prices and transportation tariffs in Russia are regulated by the Natural Monopoly Law and the Gas Supply Law, as well as by a number of supplemental Government resolutions, and do not currently fluctuate based on supply and demand. The Federal Energy Commission of the Russian Federation (“FEC”) regulates natural monopolies, including the establishment and regulation of natural gas prices and transportation tariffs. From March 2004 the FEC was reorganized into the Federal Tariffs Service (“FTS”).

Natural gas prices in Russia have remained significantly below export prices (even after netting back export tariffs and transportation costs) primarily due to Governmental regulation, by the FEC (and now the FTS). Over the last five years the FEC reset domestic gas tariffs at rates that, on a cumulative basis, failed to recover fully the effects of inflation. As of December 31, 2003 the domestic natural gas price was 198% higher in nominal RR terms than in 1997, whereas cumulative inflation over the period from December 31, 1997 to December 31, 2002 was 314%, and 363% over the period from December 31, 1997 to December 31, 2003.

Since 2000, however, domestic natural gas prices have increased at a rate greater than inflation. Our average domestic natural gas sales prices were equivalent to RR668.7 per mcm in 2003, RR535.7 per mcm in 2002 and RR442.8 per mcm in 2001, all expressed in constant RR, except for 2003 data which is in nominal RR.

The following table shows our average domestic natural gas price (including excise tax and net of VAT) for the years ended December 31, 2003, 2002 and 2001:

	Year ended December 31,		
	2003	2002	2001
	(including excise tax, net of VAT)		
Our domestic natural gas price (average actual realized RR per mcm)	668.7	505.0	357.9
Our domestic natural gas price (average actual realized RR per mcf)	18.9	14.3	10.1
Our domestic natural gas price (average constant RR per mcm, except for 2003 amount which is in nominal RR) ⁽¹⁾	668.7	535.7	442.8
Our domestic natural gas price (average constant RR per mcf, except for 2003 amount which is in nominal RR) ⁽¹⁾	18.9	15.2	12.5
Our domestic natural gas price (average U.S.\$ per mcm) ⁽²⁾	21.8	16.0	11.9
Our domestic natural gas price (average U.S.\$ per mcf) ⁽²⁾	0.6	0.5	0.3

Notes:

(1) Constant RR price in terms of the equivalent purchasing power of the RR as of December 31, 2002.

(2) Translated from average actual realized RR price for convenience only using period-end exchange rates.

The Government has allowed domestic gas prices to increase and may continue to do so in the foreseeable future. The Government is considering the introduction of an unregulated wholesale domestic market where some natural gas can be sold at prices determined by market forces. See “Gazprom—Marketing—Russia—Domestic Market Conditions.” Concerns about inflation and political considerations constrain the Government’s ability to move rapidly in this direction, however. For example, we proposed that natural gas prices should increase by 38% on average in 2003 (40% for industrial consumers and 20% for household consumers), but the Government approved an average increase of only 20% (a 20% increase for industrial consumers commencing January 1, 2003 and a 23% increase for household consumers commencing February 1, 2003). Prices for both industrial and household consumers were increased by a further 20% with effect from January 1, 2004.

During the years ended December 31, 2003, 2002 and 2001, our sales revenues derived from the transport of gas produced by third parties were relatively small, though increasing. For a discussion of our transport tariffs, see “Gazprom—Transportation—Third party access to the UGSS.”

Impact of fluctuations in RR exchange rates against the U.S. dollar and the euro and of change in purchasing power of the RR

Impact of inflation and changes in exchange rates on export sales and operating margins. 63%, 64% and 67% of our gross sales (including excise tax and net of VAT and customs duties) for the years ended December 31, 2003, 2002 and 2001, respectively were denominated in U.S. dollars or euro, while most of our costs were denominated in RR. The relative movements of inflation and exchange rates therefore significantly affect our results of operations. In particular, our operating margins are generally adversely affected by a real appreciation of the RR against the U.S. dollar or euro, because this will generally cause our costs to increase in real terms relative to our sales revenues. Conversely, our operating margins are generally positively affected by a real depreciation of the RR against the U.S. dollar or euro, because this will generally cause our costs to decrease in real terms relative to our sales revenues.

The following table sets forth the rates of inflation in Russia, the rates of nominal appreciation or depreciation of the RR against the U.S. dollar and euro and the rates of real change in the value of the RR against the U.S. dollar and euro for the periods shown.

	Year ended December 31,		
	2003	2002	2001
Inflation (CPI).....	12.0%	15.1%	18.8%
Nominal (appreciation) depreciation of the RR against the U.S.\$.....	(7.3)%	5.4%	7.0%
Real appreciation of the RR against the U.S.\$.....	20.9%	9.2%	11.0%
Nominal depreciation of the RR against the euro	11.2%	25.0%	1.3%
Real appreciation (depreciation) of the RR against the euro.....	0.7%	(7.9)%	17.2%

Period to period comparisons of our export sales revenues, as restated in constant RR for periods prior to 2003, have been significantly affected by the real change in the value of the RR against the U.S. dollar and the euro. If our actual realized U.S. dollar or euro prices and the related sales for any periods before 2003 being compared were the same, but between the periods the RR appreciated in real terms against the U.S. dollar or the euro, the related sales expressed in constant RR would have declined from one period to the next. If the real appreciation of the RR were great enough, our export prices and sales expressed in constant RR would have declined from one period to the next even in circumstances where our actual realized U.S. dollar prices and the related sales would have increased. Conversely, if the RR depreciated in real terms against the U.S. dollar or the euro, our prices and the related sales expressed in constant RR would have increased from one period to the next even if our actual realized U.S. dollar or euro prices and related sales remained unchanged, and could have increased even if our U.S. dollar or euro prices and related sales declined.

Impact of inflation accounting and presentation in our financial statements of constant RR. Until December 31, 2002, our financial results, including comparatives, include a restatement for changes in the general purchasing power of the RR in accordance with IAS 29. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. The restatement is calculated from the conversion factors derived from the Russian Federation Consumer Price Index, published by the Russian State Committee on Statistics (“Goskomstat”), and from indices obtained from other published sources for years prior to 1992. As the Russian economy is no longer considered to be hyperinflationary, from January 1, 2003 we no longer apply IAS 29.

The impact of stating our financial information in terms of the measuring unit current at the balance sheet dates, prior to and as of December 31, 2002, was to:

- inflate the current period transactions recorded in the statement of operations of the local statutory books by the average rate of inflation for the period in order to state them in terms of the purchasing power of the RR as of the balance sheet date (i.e. using the average inflation factor of 1.0638 for all relevant transactions in the year ended December 31, 2002);
- restate the period end non-monetary assets and liabilities and shareholders’ equity, including share capital, in terms of the measuring unit current as of the period-end; and
- restate all comparatives, monetary and non-monetary items, in terms of the purchasing power of the RR as of December 31, 2002 (i.e. for the information included in this offering circular, to inflate the comparatives in terms of the purchasing power of the RR as of December 31, 2002).

The restatement of all comparatives, in particular, had a significant impact on our reported sales and operating profit. For example, domestic sales expressed in constant RR decreased when increases in nominal prices were lower than inflation and increased less than might otherwise be expected even when increases in nominal prices were higher than inflation. Our ability to increase the prices we charge for our natural gas sales in the domestic market is constrained by Government regulations. Moreover, as we discuss more fully below, the impact of U.S. dollar and euro price increases for our export sales was offset in recent periods, and the impact of U.S. dollar and euro price decreases was magnified in recent periods, by the real appreciation of the RR (i.e., by a rate of inflation that is higher than the rate at which the RR is depreciating against the U.S. dollar or euro). As a result, our reported sales lagged behind the changes in our average actual realized prices in nominal terms. On the other hand, our costs, which are mainly in RR and are generally not regulated, tended to increase in line with or above inflation in recent periods.

In addition, the restatement of all comparatives had a significant impact on our debt balances. For example, even though we borrowed more than we repaid during the years ended December 31, 2003, 2002 and 2001, the restatement of our comparatives into current purchasing power resulted in our reported debt balances having declined at each period end until December 31, 2002. For a discussion of our debt obligations, see “—Liquidity and Capital Resources—Debt obligations.”

Impact of Monetary Effects. Our results of operations were also substantially affected prior to 2003 by the impact of nominal devaluation and inflation on the value of our monetary assets and liabilities. Nominal devaluation of the RR generally resulted in foreign exchange gains on monetary assets denominated in foreign currencies and foreign exchange losses on monetary liabilities denominated in foreign currencies. These gains and losses were recorded on a net basis in our statements of operations under the caption “Exchange gain (loss).” Inflation resulted in purchasing-power gains on monetary liabilities and purchasing power losses on monetary assets; because our financial statements for periods and as of dates prior to 2003 are price-level restated, these gains and losses are recorded on a net basis in our statements of operations for periods prior to 2003 under the caption “Monetary gain.” There was no monetary gain for the year ended December 31, 2003 as the characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased, and effective from January 1, 2003 we no longer apply the provisions of IAS 29. Accordingly, no adjustments for the effects of changes in general purchasing power are recorded in the financial statements beginning January 1, 2003.

Our historically high tax burden

We are subject to a wide range of taxes imposed at federal, regional, and local levels and are one of the largest sources of tax revenue to the federal authorities in Russia, as well as to the regional and local authorities in those regions and localities in which we operate. The combination of political pressure on the federal, regional and local authorities to address social and economic issues and the difficulties associated with collecting taxes from companies and enterprises in financial difficulties, all increase the risk that the Government, as well as regional and local governments, will seek to mitigate these problems by increasing our already substantial tax burden.

Given the relative size of our activities in Russia, our tax burden is largely determined by the taxes payable in Russia.

In addition to profits tax, we are subject to a number of other taxes in Russia, many of which are based on revenue or volumetric measures. Royalty taxes, mineral extraction taxes and road users tax are calculated based on the revenue generated from exploration and production activities. Social taxes and contributions are a function of salaries and wages. Significant taxes to which we are subject include:

- excise tax (abolished effective January 1, 2004 for gas produced after January 1, 2004);
- VAT (reduced from 20% to 18% effective January 1, 2004) and sales tax (abolished effective January 1, 2004);
- natural resources production tax, which replaced royalty taxes and mineral extraction taxes effective January 1, 2002 (effective January 1, 2004 natural resources production tax for gas changed from 16.5% of the value of gas produced to a fixed rate of RR107/mcm, and for gas condensate from 16.5% of the value of gas condensate produced from gas condensate fields and RR340 per ton of gas condensate produced from oil and gas condensate fields (the latter rate being 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);
- gas export duty (increased from 5% to 30% effective January 1, 2004);
- property tax (increased from 2% to 2.2% effective January 1, 2004);
- road users tax (abolished effective January, 1 2003); and
- social taxes and contributions.

Our overall effective profit tax rates (current and deferred tax expense as a percentage of IFRS profit before profit tax and minority interest) for the years ended December 31, 2003, 2002 and 2001 were 31.6%, 82.1% and 92.0%, respectively, while the statutory income tax rates in Russia were 24%, 24% and 35% in 2003, 2002 and 2001, respectively. The significant difference between our effective profit tax rates and the statutory rates and the volatility of those rates since 2000 has been the result of:

- significant non-deductible expenses, primarily relating to social expenses;
- significant deferred tax benefits and expenses. In each period, temporary differences related to property, plant and equipment affected deferred taxes due to the fact that a significant proportion of the tax basis is based on values determined by independent appraisals while the financial reporting basis is historical cost restated for changes in the general purchasing power of the RR;
- the impact of accounting for inflation, which had been increasing our effective tax rate during the periods ending before 2003; and
- changes in Russian tax legislation.

Current profit tax expense for the years ended December 31, 2003, 2002 and 2001 was RR42,368 million, RR54,187 million and RR94,957 million, respectively. This represents effective current profit tax rates (current profit tax expense as a percentage of IFRS profit before tax and minority interest) for the years ended December 31, 2003, 2002 and 2001 of 17.9%, 32.7% and 41.0%, respectively. The general reduction of the current profit tax rate in the years ended December 31, 2003 and 2002 was primarily due to the shorter depreciation lives of fixed assets for tax purposes effective January 1, 2002, which increased depreciation for tax purposes and consequently reduced our current tax expense in those periods. The reduction of the current profit tax rate from the year ended December 31, 2002 to the year ended December 31, 2003 was primarily due to the effect of “transition period” profit tax charged as a one time expense in 2002 resulting from changes in tax legislation. See “—Results of Operations—Year ended December 31, 2003 versus year ended December 31, 2002—Profit tax.”

Effective January 1, 2002, the Russian Government adopted new tax legislation. This tax legislation included a number of changes, the most significant of which for the profit tax were:

- a decrease in the statutory profit tax rate from 35% to 24%;
- the elimination of upper limits on the deductibility of expenses considered to be in the normal course of business;
- a general decrease in the useful lives of property, plant and equipment for tax accounting purposes;
- the elimination of independent appraisals or use of indices to increase the tax base of property, plant and equipment (capped to 30% of any increase associated with a revaluation as of January 1, 2002 and eliminated entirely thereafter). No independent appraisal was undertaken or revaluation recorded for tax purposes as of January 1, 2002 as we projected tax losses at our parent company, which holds most of our property, plant and equipment, in light of the decrease in the tax depreciation lives of property, plant and equipment and did not want to increase the taxable base for property tax purposes;
- the elimination of investment tax credits, although this has had and will have no significant impact because since June 1999 we have been unable to claim such credits due to the structure of our capital funding programs with subsidiaries. Our capital funding program is structured in such a way to maximize management control over capital expenditures throughout our consolidated Group. We believe that the advantages of tighter control outweigh the additional tax costs associated with the inability to claim the investment tax credits;
- the ability to deduct interest on business loans regardless of the source and use; and
- the ability to offset exploration expenditure against profit tax instead of against mineral restoration taxes.

We expect that our overall effective profit tax rate as a percentage of IFRS profit will continue to be higher than the statutory profit tax rate for the foreseeable future.

On September 3, 1999 the Government issued regulation #1002 allowing certain companies to restructure over ten years various overdue taxes, interest and fines due to the federal government authorities. During the years ended December 31, 2000, 2001 and 2002 certain of our subsidiaries signed such restructuring agreements. This resulted in the recognition of a gain in each of the respective periods based on the difference between the estimated fair value of the new agreements (based on discounted future cash flows) and the carrying amount of the old payables. This gain is reflected as gain on restructured taxes. Following the restructurings, we recognize the amortization of the discount (representing the difference between the nominal and discounted value of the restructured taxes) as interest expense on

taxes payable. Interest accrues on the restructured tax payables (excluding interest and fines) at a rate of 5.5% per annum, representing 1/10 of the Central Bank's annual financing rate (55%) as specified in the regulation, and is paid quarterly. This interest is also included in interest expense on taxes payable. If the terms of the restructuring are violated, the original nominal value of the tax payable (including interest and fines) becomes due with additional interest of 1/300 of the Central Bank refinancing rate accruing daily. In the years ended December 31, 2003 and 2002 a number of our subsidiaries were able to extinguish part of the restructured interest and fines, having complied with the terms of the accelerated repayment schedules of such payables provided for by the regulation.

Interest rates

We have significant short-term and long-term debt obligations with both fixed and variable interest rates. Fluctuations in interest rates therefore affect our financial results. We do not have any significant hedging arrangements to mitigate interest rate risks resulting from our financing activities.

Non-cash settlements

Historically, in common with other Russian companies, we have entered into agreements to settle a number of transactions by the transfer of goods and services, or promissory notes, instead of cash. This practice has resulted principally from the following factors:

- high inflation in Russia;
- unreliable banking services;
- gas that we produce is required for the day-to-day operations of a number of our key suppliers; and
- contractual arrangements.

As the general economic climate in Russia has improved, the volume and value of these transactions has decreased significantly.

While the use of barter transactions and illiquid promissory notes to settle commercial transactions continues to be prevalent in Russia, our reliance on such non-cash transactions has decreased as a proportion of the value of our transactions. As can be seen in the table below, the percentage of non-cash settlements (i) related to total sales decreased from approximately 18% in the year ended December 31, 2001 to approximately 17% in the year ended December 31, 2003; (ii) related to domestic sales decreased from approximately 23% in the year ended December 31, 2001 to approximately 21% in the year ended December 31, 2003; and (iii) related to capital expenditures decreased from approximately 31% in the year ended December 31, 2001 to approximately 23% in the year ended December 31, 2003.

	Year ended December 31,		
	2003	2002	2001
% of non-cash settlements related to total gross sales .	17%	18%	18%
% of non-cash settlements related to gross domestic sales	21%	21%	23%
% of non-cash settlements related to total capital expenditures	23%	15%	31%

Barter transactions have been substantially reduced and now non-cash settlements primarily represent mutual cancellations using promissory notes. We receive promissory notes from our customers (both issued by customers and third parties) as settlement of receivables. Promissory notes issued by customers are recorded in the same manner as accounts receivable we originate (i.e., at estimated fair value). Promissory notes issued by other third parties are recorded as available-for-sale investments. We give promissory notes, mainly those of OAO Gazprom, to our suppliers in exchange for services or products. Such promissory notes are relatively liquid in the Russian market and are commonly traded by other Russian companies. The difference between the carrying value of the payables being settled and the face value of the promissory notes is recorded as interest expense within net finance costs. Promissory notes are shown separately in our balance sheet. See “—Liquidity and Capital Resources—Debt Obligations.”

Impairment of assets

Historically, our results have been affected by impairment provisions on accounts receivable, inventory, property, plant and equipment (including assets under construction), investments and other long-term assets. Expenses for such impairment provisions were RR15,298 million, RR7,104 million and RR42,863 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Our provisions for accounts receivable have been significant. As of December 31, 2003, the aggregate balance sheet provision for accounts receivable and prepayments was RR140,837 million or 32% of the gross receivable balance. Provisions for accounts receivable have related mainly to non-payment for natural gas sold to Ukraine, Moldova, Serbia and Montenegro and certain domestic consumers. See “Gazprom—Marketing—FSU” and “Gazprom—Marketing—Russia.”

Our provisions for property, plant and equipment have also been significant. As of December 31, 2003, the aggregate balance sheet provision related to property, plant and equipment was RR93,466 million or 5% of gross property, plant and equipment. RR91,481 million of this aggregate balance sheet provision relates specifically to assets under construction, representing 30% of gross assets under construction. The impairment provision for assets under construction primarily relates to the following projects: RR19,190 million for part of the Obskaya-Bovanenkovo railroad construction; RR15,665 million for certain development projects in the Bovanenkovskoye and Kharasaveiskoye fields; and RR20,857 million for the Novy Urengoi Chemical Complex. Although these projects have not been abandoned, under the current investment program we do not believe they will generate positive cash flows in the future.

From 2002, the cumulative balance sheet provision against assets under construction has decreased. The decrease, generally caused by release of impairment provisions, primarily reflects the strategy of current management to focus on priority projects in a systematic way and begin to fund certain projects which had previously been frozen. As a result, the release of impairment provisions related to assets under construction generated income totalling RR1,788 million and RR6,883 million in 2003 and 2002, respectively. Because of our operating cycle, certain significant decisions about capital construction projects are made after the end of our fiscal year. Accordingly, we typically have larger charges (releases) in the fourth quarter of our fiscal year as compared to other quarters. For a discussion of our impairment provisions in the year ended December 31, 2003 and 2002, see “—Results of Operations—Year ended December 31, 2003 versus year ended December 31, 2002.”

Certain Acquisitions and Dispositions

Since January 1, 2001, we have made a number of acquisitions and dispositions.

In 1999 we began participating in the creation of regional trade houses involved in the trading of gas in Russia. In 2002 our interest in the majority of such companies increased from 20% to 51% of their share capital and these companies were consolidated as subsidiaries.

In January 2001, we exchanged a 57% interest in Lebedinsky GOK (“LGOK”), a mining and ore enrichment company operating in the Russian Federation, and a 17% interest in the Oskolsky EMK for a 48% interest in ZAO Gazmetall (“Gazmetall”). Gazmetall is a metallurgical holding company with controlling interests in LGOK and the Oskolsky EMK. In March 2002, we sold our 48% interest in Gazmetall for U.S.\$70 million to OAO Oskolsky Metallurgical Plant, a subsidiary of Gazmetall. The financial effect of these transactions was not material to our financial position or results of operations.

In January 2001, we acquired 50.7% of the voting shares of Sibur, a leading marketer of petrochemical products in Russia. The consideration of RR3,015 million consisted of a combination of cash, promissory notes issued by companies in our Group and other securities. Sibur was consolidated as a subsidiary effective from January 1, 2001. In the first quarter of 2002 external supervision was introduced, at our initiative, in respect of Sibur pursuant to a decision of the arbitration court. On September 10, 2002 a creditors’ meeting approved an amicable settlement agreement, which was subsequently approved by the court. The agreement provided for the restructuring and rescheduling of Sibur debts generally over a period of eight years with first payments due in 2004. In the third quarter of 2002 we signed agreements to acquire additional interests in a number of Russian petrochemical companies, the majority of which were already affiliated with Sibur. In April 2003, following the completion of legal procedures we established control over majority of these companies and thereby increased our controlling interest in the share capital of Sibur from 50.7% to 75.7%. In respect of this acquisition we have issued long-term promissory notes with a nominal value of RR17,587 and an estimated fair value of RR6,770 million. In

September 2003 we acquired an additional 2.4% interest in Sibur for RR102 million. Fair values of the identifiable assets and liabilities of these companies have been determined on a provisional basis and might be subject to subsequent adjustments over the period to December 31, 2004. Any adjustments are not expected to be material to the Group's consolidated financial statements.

In 2000 OAO Zapsibgazprom ("Zapsibgazprom") issued additional shares, thereby decreasing our interest in its share capital from 51.1% to 34%. In April 2002, the Federal Commission for the Securities Market cancelled the registration of additional stock issued to third parties by Zapsibgazprom. As a result, we increased our interest in the ordinary share capital of Zapsibgazprom back from 34% to 51.1%. In December 2002, we sold our 12% interest in OAO Arcticgas with a carrying value of RR1 million to OAO NK Yukos in exchange for 25.6% of the shares of Zapsibgazprom with a nominal value of RR300,000 and additional cash consideration of U.S.\$2.95 million. We thereby increased our interest in the share capital of Zapsibgazprom from 51.1% to 76.7%.

In April 2002 we acquired an additional 32.8% of the voting shares in our production subsidiary OAO Vostokgazprom for RR2 million, increasing our interest from 51.0% to 83.8%. We hold these additional shares through our subsidiary Gazprom UK Ltd.

During 2000, ZAO Media-Most ("Media-Most") defaulted on its payment obligation under certain loans, which we had guaranteed. We fulfilled our obligations under the guarantee, and in November 2000, signed agreements with Media-Most to change the collateral under the guarantees to obtain a 46% interest in OAO TV Company NTV ("NTV") and 25% plus one share interests in various other Media-Most operating companies. In July 2001 Media-Most defaulted on another loan, which we had guaranteed. After fulfilling our obligation under this loan guarantee, we obtained a further 19% interest in NTV and additional 25% interests in the other Media-Most operating companies. In July 2002, we acquired additional interests in Media-Most, in NTV and in certain of our other media subsidiaries, as well as payables and promissory notes to third parties due by these companies. The consideration was paid partly in cash and partly through the forgiveness of debt owed to OAO Gazprom. As a result of this transaction we increased our interest in NTV from 65.0% to 95.6% and in Media-Most from 14.3% to 38.6%. In October 2002, we signed a framework agreement to sell non-controlling interests in certain media companies, including NTV, to Evrofinance Group (as nominee), the consideration for which was partially settled in cash and partially through the settlement of certain debt obligations of Media-Most and its media companies to us. The interests to be sold primarily comprised those acquired in July 2002. As a result, our interest in NTV was reduced to 65.0%. Under the framework agreement, Evrofinance Group is to contribute cash and these acquired interests into a new media holding company, which will be controlled and majority-owned by us. Our contribution into the new holding company will comprise the remaining interests in certain of our media subsidiaries. We expect to complete these transactions in 2004.

In January 2003 in accordance with an option provided for by the NTV global depositary receipts ("GDRs") purchase agreement dated April 1, 2001, we acquired the GDRs from the SmallCap World Fund Inc. for U.S.\$32.0 million paid in cash. In February 2003 the GDRs were exchanged for common shares of NTV and OAO TNT-Teleset. As a result of this transaction the Group increased its interest in NTV from 65.0% to 69.4% and in OAO TNT-Teleset from 50.0% to 51.7%.

In September 2002 we entered into an agreement with OAO Stroytransgaz to establish a joint activity which was formally established in October 2002. We contributed promissory notes of OAO Gazprom with a fair value of RR4,759 million (face value RR5,719 million) payable in January 2004 and OAO Stroytransgaz contributed 1,144 million of ordinary shares of OAO Gazprom (4.83% of our shares). In March 2003 OAO Stroytransgaz terminated its participation in the joint activity agreement in return for promissory notes contributed by us into the joint activity. In April 2003 we acquired 25.9% of the ordinary shares of OAO Stroytransgaz for consideration with a fair value of RR3,336 million, including primarily promissory notes and cash. In August 2003 we acquired 15.54% of preferred shares and an additional 0.2% of ordinary shares in OAO Stroytransgaz for RR152 million.

Initially, we and ZAO Rosshelf, our 53% owned subsidiary, had 99.1% and 0.9% direct interests, respectively, in a joint activity established to develop the Arctic shelf (Shtokmanovskoye and Prirazlomnoye fields) in the Barents and Pechora Seas. In October 2002, we signed an amendment to the joint activity agreement that provided for the addition of ZAO Sevmorneftegaz to our joint activity agreement. ZAO Sevmorneftegaz is jointly controlled by ZAO Rosshelf and OAO NK Rosneft-Purneftegaz, a subsidiary of OAO NK Rosneft ("Rosneft"). Under the agreement, in February 2003 ZAO Sevmorneftegaz made a non-cash contribution valued at RR4,334 million, thereby obtaining a 48.9% interest in the assets of the joint activity. As a result of the transaction we and ZAO Rosshelf held 48.7% and 2.4% direct interests in

the joint activity, respectively, and our total effective interest decreased from 99.6% to 62.9%. In July 2003 Rosneft signed an agreement to acquire a 49.95% direct interest in the joint activity as recognition of its prior investment into the joint activity. The effect of this transaction was to decrease our total effective interest in the joint activity from 62.9% to 48.85% and to establish joint control over the assets of the joint activity with Rosneft.

In May 2003, Gazprombank acquired a 15.76% interest in OAO Mosenergo for RR10,900 million.

Recent developments

In January 2004, Gazprombank acquired a 5.3% interest in RAO UES for RR19,800 million.

In March 2004, we acquired a 34% interest in AO Lietuvos Dujos from the State Property Fund of Lithuanian Republic for RR1,020 million. AO Lietuvos Dujos engages primarily in the distribution and transportation of natural gas in Lithuania.

In March 2004, ZMB, our subsidiary in Germany, acquired a 40.0% interest in Bosphorus Gas Corporation AS for U.S.\$0.6 million paid in cash. Bosphorus Gas Corporation AS distributes natural gas in Turkey.

In March 2004 we acquired a 20% interest in Odex Exploration Ltd. (Cyprus) for U.S.\$10.5 million. The company is involved in the exploration and development of oil and gas fields in North Africa.

In March 2004 our production subsidiary OAO Vostokgazprom issued 2,275,000 additional ordinary shares. All of the new shares were purchased by us for RR2,275 million for cash. The issue was registered by the Federal Service for Financial Markets in May 2004. As a result the ownership interest of Gazprom in OAO Vostokgazprom increased from 83.8% to 99.9%.

In April 2004 we acquired a further 14.23% interest in Sibur pursuant to an agreement with ZAO “Gazoneftekhimicheskaya kompania.” The nominal value of the long-term promissory note issued by the Group in connection with this transaction was RR669 million as of December 31, 2003. As a result of this transaction we increased our controlling interest in the charter capital of Sibur from 78.1% to 92.3%.

In June 2004 we acquired an additional 12.8% interest in ZAO Stimul (“Stimul”). As a result of this transaction we increased our interest in the charter capital of Stimul from 38.2% to 51.0%. In accordance with a cooperation agreement concluded among Stimul’s principal shareholders in order to promote Stimul’s business and to enhance its capitalization, all five members of Stimul’s Board of Directors as elected at its annual general shareholders’ meeting on July 23, 2004 are our representatives. Stimul, a production company, holds a license for the development of the eastern part of the Orenburg oil and gas condensate deposit, and in 2003 produced 240 mmcm of natural gas and 352,000 tons of gas condensate and crude oil.

Our asset reacquisition program

Our senior management has carried out an asset reacquisition program, through which we have reacquired certain assets from various entities.

In April 2002, we completed the repurchase of 32% of the shares in ZAO Purgaz (“Purgaz”) from the Itera International Energy group of companies (“Itera”) pursuant to a repurchase option provided by the 1999 share purchase agreement under which we had sold the shares to Itera for their nominal value. As a result, our interest in Purgaz rose from 19% to 51%. Purgaz holds a license for the development of the Gubkinskoye gas field in western Siberia. In connection with the acquisition of these Purgaz shares, we paid Itera RR33,000 in cash (the nominal value of the shares) and financed Purgaz’s repayment of RR6,594 million of financing originally provided by Itera to Purgaz to finance development work, thereby satisfying all of Purgaz’s outstanding liabilities to Itera. Subsequent to its consolidation in April 2002, Purgaz contributed 11.2 bcm to our natural gas production volumes in 2002, and 15.2 bcm in 2003.

In February 2003 the management of our wholly-owned subsidiary OOO Mezhregiongaz (“Mezhregiongaz”), acting in violation of our internal procedures, sold a 40.1% (out of our total 46.4% interest) of the share capital of ZAO Agrochemical Corporation Azot (“Azot”) at its carrying value of RR394 million for cash, reducing our interest to 6.3%. The shares were sold to the other shareholders of Azot as a result of the latter taking advantage of their pre-emptive purchase rights. In April 2003, a part of this transaction was cancelled by an agreement of the shareholders. As a result, we received back a 33.9% interest in Azot and returned RR333 million of the cash received in February 2003. In July 2003

we acquired an additional 7.2% interest in Azot at par value from the existing shareholders of Azot for RR71 million in cash. Accordingly, as of December 31, 2003 we had a 47.4% interest in Azot. In an action we brought to recover the remaining 6.2% of our prior interest, the Moscow Region Arbitration Court has ruled in our favor, and the process for the execution of this decision have been initiated.

In February 2003 we acquired a 51.0% additional interest in OAO Severneftegazprom (“Severneftegazprom”) from Itera at the nominal value of the shares (RR102,000) for cash and thereby increased our interest in the share capital of Severneftegazprom to 100%. In connection with the acquisition of this interest, we paid RR369 million in cash to Itera to settle the amount owed by Severneftegazprom to finance development work. Severneftegazprom, a production company, holds a license for the development of the Yuzhno-Russkoye field. At the same time we sold to Itera a 10.0% interest in OAO Sibirsky Oil and Gas Company at its carrying value of RR2.55 million plus a 7.8% interest in OAO Tarkosaleneftegaz at its carrying value of RR356 million for cash.

ZAO Achimneftegaz (“Achimneftegaz”) was created as a wholly-owned subsidiary of our subsidiary, OOO Urengoigazprom (“Urengoigazprom”), to accelerate development of the Achimov layer gas condensate deposit in the Urengoiskoye field. Achimneftegaz is currently working on the second section of the Achimov layer of the field. Several years ago, ZAO CTI-Sigma, an Itera affiliate, acquired a 49% stake in Achimneftegaz. We are currently taking measures to reacquire a 48% stake in Achimneftegaz from the 49% previously acquired by ZAO CTI-Sigma.

We initially held a 51% stake in ZAO Nortgaz (“Nortgaz”), a company that holds licenses for the development of the North Urengoiskoye field. Our initial stake was reduced to 0.5% in 2001 as a result of a court decision invalidating our participation in a share issuance by Nortgaz in 1999 on the basis that the value of the property that we contributed to Nortgaz had not been approved by its Board of Directors. We are currently attempting to reacquire the Nortgaz shares we lost as a result of this prior decision through further court actions. See “Gazprom—Litigation and Investigations.”

RESULTS OF OPERATIONS

The following table and discussion is a summary of our consolidated results of operations for the years ended December 31, 2003, 2002 and 2001. Each line-item is also shown as a percentage of our total sales. All RR amounts related to financial information for periods prior to January 1, 2003 are expressed in constant RR as of December 31, 2002 purchasing power, unless otherwise noted. No adjustment for the effects of changes in general purchasing power have been made for period starting from January 1, 2003.

	Year ended December 31,					
	2003		2002		2001	
	(RR million)	(% of sales)	(RR million)	(% of sales)	(RR million)	(% of sales)
Sales (net of excise tax, VAT and customs duties)	819,753	100%	644,687	100%	712,967	100%
Operating expenses	(593,415)	(72)%	(496,713)	(77)%	(506,843)	(71)%
Operating profit	226,338	28%	147,974	23%	206,124	29%
Net monetary effects and financing items	2,141	0%	17,224	3%	22,511	3%
Share of net income of associated undertakings	3,478	0%	4,285	1%	4,087	1%
Gains (losses) on available-for-sale investments	5,017	1%	(3,729)	(1)%	(993)	(0)%
Profit before profit tax and minority interest	236,974	29%	165,754	26%	231,729	33%
Current profit tax expense	(42,368)	(5)%	(54,187)	(8)%	(94,957)	(13)%
Deferred profit tax (expense) benefit	(32,449)	(4)%	(81,945)	(13)%	(118,234)	(17)%
Total profit tax (expense) benefit	(74,817)	(9)%	(136,132)	(21)%	(213,191)	(30)%
Profit before minority interest	162,157	20%	29,622	5%	18,538	3%
Minority interest	(3,062)	(0)%	(667)	(0)%	(5,339)	(1)%
Net profit	159,095	19%	28,955	4%	13,199	2%

Year ended December 31, 2003 versus year ended December 31, 2002

Sales

The following table sets out our volumes and realized prices for the year ended December 31, 2003 and 2002.

	Year ended December 31,	
	2003	2002
	(RR million, unless otherwise indicated)	
Sales of gas		
<i>Europe</i>		
Gross sales (including excise tax) ⁽¹⁾	547,381	433,085
Excise tax	(125,065)	(97,970)
Net sales	422,316	335,115
Excise tax as a percentage of sales	23%	23%
Volumes in bcm	144.7	128.6
Average price, US\$ per mcm ⁽²⁾ (including excise tax and net of customs duties) ⁽³⁾	123.9	102.5
Average price, constant RR per mcm ⁽²⁾ as of December 31, 2002 purchasing power, except for 2003 amount which is in nominal RR (including excise tax and net of customs duties)	3,782.3	3,369.0
<i>FSU</i>		
Gross sales (including excise, net of VAT)	53,591	61,506
Excise tax	(9,542)	(10,437)
Net sales	44,049	51,069
Excise tax as a percentage of sales	18%	17%
Volumes in bcm	42.6	42.6
Average price, US\$ per mcm ⁽²⁾ (including excise tax and net of VAT and customs duties) ⁽³⁾	40.9	45.4
Average price, constant RR per mcm ⁽²⁾ as of December 31, 2002 purchasing power, except for 2003 amount which is in nominal RR (including excise tax and net of VAT and customs duties)	1,256.6	1,444.2
<i>Russia</i>		
Gross sales (including excise, net of VAT)	206,094	159,642
Excise tax	(19,444)	(16,788)
Net sales	186,650	142,854
Excise tax as a percentage of sales	9%	11%
Volumes in bcm	308.2	298.0
Average price, nominal RR per mcm ⁽²⁾ (including excise tax and net of VAT)	668.7	505.0
Average price, constant RR per mcm ⁽²⁾ as of December 31, 2002 purchasing power, except for 2003 amount which is in nominal RR (including excise tax and net of VAT)	668.7	535.7
<i>Total sales of gas</i>		
Gross sales (including excise, net of VAT and customs duties)	807,066	654,233
Excise tax	(154,051)	(125,195)
Net sales	653,015	529,038
Excise tax as a percentage of sales	19%	19%
Volumes in bcm	495.5	469.2
Sales of gas condensate and other oil and gas products (net of excise tax and VAT)	92,180	56,647
Gas transportation sales (net of VAT)	28,226	18,028
Other sales (net of VAT)	46,332	40,974
Total sales (net of excise tax, VAT and customs duties)	819,753	644,687

Notes:

(1) VAT is not charged on sales to Europe.

(2) One mcm is equivalent to 35,316 cubic feet.

(3) Average actual prices and not a convenience translation.

Net sales revenues increased by RR175,066 million, or 27%, to RR819,753 million in 2003 compared to 2002. Net sales of gas accounted for 80% of total sales in 2003 (82% in 2002) and were RR653,015 million or 23% higher than in 2002.

Net sales of natural gas to Europe increased by RR87,201 million, or 26%, to RR422,316 million in 2003 compared to 2002. This was primarily due to a 12% increase in prices (comparing nominal prices for the year ended December 31, 2003 to prices in constant RR terms as of December 31, 2002 purchasing power for the year ended December 31, 2002), and a 13%, or 16 bcm, increase in sales volumes. Following the increase in U.S. dollar oil prices, average U.S. dollar export gas prices increased by 21% in 2003 to U.S.\$123.9 per mcm compared to 2002. Nevertheless, our reported average RR export gas prices to Europe increased by only 12% to RR3,782.3 per mcm as a result of a 7.3% nominal appreciation of the RR against the U.S. dollar for 2003 compared to 2002. The increase in sales volumes was primarily due to increased volumes sold to Germany, Hungary, Turkey and Holland under existing long-term contracts.

Net sales of natural gas to FSU countries decreased by RR7,020 million, or 14%, to RR44,049 million in 2003 compared to 2002. This was due to a 13% decrease in the average prices of natural gas (comparing nominal prices for 2003 to prices in constant RR terms as of December 31, 2002 purchasing power for 2002). Sales volumes remained approximately the same. The 13% decrease in our reported average RR price to RR1,256.6 per mcm resulted from a 10% decrease in the average realized U.S. dollar price to U.S.\$40.9 per mcm, which was primarily due to lower prices in the Ukraine set by intergovernmental agreements and to the nominal appreciation of the RR against the U.S. dollar. In 2003 we continued to restrict our shipments to Ukraine to those required to cover transportation services, so-called “transit-gas,” which mitigates our collection risk. Shipments to Ukraine in 2003 were 26.0 bcm compared to 26.1 bcm in 2002.

Net sales of natural gas in the domestic market increased by RR43,796 million, or 31%, to RR186,650 million in 2003 compared to 2002. This was due to the increase in domestic gas tariffs set by the Federal Energy Commission and a 3%, or 10.2 bcm, increase in sales volumes. The nominal average domestic price increased by 32% from RR505.0 per mcm in 2002 to RR668.7 per mcm in 2003. The 3% increase in domestic sales volumes reflects increased sales by Sibur (from 3.7 bcm in 2002 to 8.3 bcm in 2003), sales to Itera (from 8.1 bcm in 2002 to 15.5 bcm in 2003) and gas sales through an electronic terminal by our subsidiary Mezhhregiongaz, which commenced at the end of 2002 (from 0.5 bcm in 2002 to 1.3 bcm in 2003). See “Gazprom—Marketing—Russia.” Sales volumes by Sibur increased in 2003 due to the fact that Sibur increased its level of operations following the completion of bankruptcy procedures in September 2002. Sales volumes to Itera increased because following our reacquisition of a controlling interest in Purgaz, Itera was no longer able to fulfill certain of its long-term supply obligations and thus reached an agreement with us to purchase additional natural gas.

Total excise taxes on natural gas sales increased by 23%, to RR154,051 million, in 2003 from RR125,195 million in 2002, representing 19% and 19% of gross sales of natural gas, respectively. The increase was primarily due to higher natural gas sales to customers in Europe and Russia.

Sales of gas condensate and oil and gas products increased by RR35,533 million, or 63%, to RR92,180 million in 2003 compared to RR56,647 million in 2002. This increase was primarily due to higher oil and gas product prices, the increased level of operations at Sibur following the completion of bankruptcy procedures in September 2002, and the consolidation by Sibur of additional petrochemicals in 2003. Sibur and these petrochemical companies accounted for 63% of sales of gas condensate and oil and gas products in 2003, compared to 48% in 2002.

Gas transportation sales increased by RR10,198 million, or 57%, to RR28,226 million, in 2003 from RR18,028 million in 2002. This was primarily due to the commencement of transportation sales to Eural Trans Gas starting from January 2003, which amounted to RR14,759 million in 2003 and more than offset the RR6,458 million reduction in transportation sales to Itera. Eural Trans Gas is engaged in purchasing gas from Central Asia for resale to customers in Europe. See “Gazprom—Transportation—Third-party Access to the UGSS.” The volume of gas transported under the contract with Eural Trans Gas in 2003 was 34.9 bcm.

Other sales increased by RR5,360 million, or 13%, to RR46,332 million in 2003 compared to RR40,974 million in 2002. Other sales represent activities such as construction work, gas storage services, refining services, sales by our media subsidiaries and sales of other services and goods.

Operating Expenses

Operating expenses increased by 19%, to RR593,415 million, in 2003 from RR496,713 million in 2002. Operating expenses decreased as a percentage of sales from 77% in 2002 to 72% in 2003. The table below presents a breakdown of operating expenses in each year:

	Year ended December 31,			
	2003		2002	
	RR million	% of net sales	RR million	% of net sales
Transit costs	108,711	13%	102,632	16%
Staff costs	100,122	12%	65,717	10%
Depreciation	99,648	12%	93,454	14%
Materials	44,395	5%	47,310	7%
Repairs and maintenance	42,955	5%	24,218	4%
Taxes other than on income	35,088	4%	43,975	7%
Purchased gas	29,650	4%	9,957	2%
Electricity	24,300	3%	13,449	2%
Processing services	16,243	2%	13,226	2%
Provisions for impairment of assets	15,298	2%	7,104	1%
Provisions for liabilities and charges	13,528	2%	6,804	1%
Cost of goods for resale, including refined products	11,870	1%	17,900	3%
Social expenses	11,724	1%	7,013	1%
Research and development	6,083	1%	4,464	1%
Transportation services	5,684	1%	3,423	1%
Other	28,116	4%	36,067	5%
Total operating expenses	593,415	72%	496,713	77%

Transit costs

Transit costs increased by 6%, to RR108,711 million, in 2003 from RR102,632 million in 2002. Transit costs relate principally to fees charged by Ukraine, Poland and other Eastern Europe and Central Asian countries for the transit of gas to markets in Europe. The increase was primarily due to the increased volume of gas sales to Europe, new transit contracts in Central Asia and higher transportation tariffs in Poland. These increases more than offset the RR6,226 million decrease in transit costs in Ukraine, following the decrease in transportation tariffs in line with the decrease in gas prices to Ukraine.

In 2003, ZGG, our wholly owned subsidiary in Germany, started to purchase gas for resale to customers in Western Europe and incur transit costs primarily in the Ukraine. Also, in January 2003 we began to provide gas transportation services to Eural Trans Gas relating to the transportation of gas from fields in Central Asia to the Russian border with Ukraine, resulting in increased transit costs payable by us to third parties for the transportation of gas across Kazakhstan and Uzbekistan. Our increased transit cost in Poland resulted from an increase in the U.S. dollar denominated gas transportation tariff by U.S.\$1.35, to U.S.\$2.68, per mcm per 100 km in January 2003. The effect of the increased tariffs, largely U.S. dollar denominated, was partially offset by the nominal appreciation of the RR against the U.S. dollar in 2003 compared to 2002.

Staff costs

Staff costs increased by 52%, to RR100,122 million, in 2003 from RR65,717 million in 2002. The increase was primarily due to the rise in the average base salaries in January 2003 and June 2003, the bonus paid for the 10th anniversary of OAO Gazprom in February 2003 and the increase in the number of employees following the acquisition of controlling interests in a number of Russian petrochemical companies, which accounted for RR6,862 million of the increase.

Depreciation

Depreciation increased by 7%, to RR99,648 million, in 2003 from RR93,454 million in 2002. The increase primarily resulted from our growing fixed asset base.

Materials

Cost of materials decreased by 6%, to RR44,395 million, in 2003 from RR47,310 million in 2002. The decrease was primarily related to lower prices for material purchases as we reduced the use of non-cash settlements, which are generally made at higher prices relative to purchases for cash.

Repairs and maintenance

Cost of repairs and maintenance increased by 77%, to RR42,955 million, in 2003 from RR24,218 million in 2002. The increase was primarily related to increased volume and higher cost of repair and maintenance activities in the transportation segment due to the ageing of the pipeline assets. See “Gazprom—Transportation—Age and Maintenance.”

Taxes other than on income

Taxes other than on income consist of:

	Year ended December 31,	
	2003	2002
	(RR million)	
Natural resources production tax	19,644	20,485
Property tax	10,646	9,371
Road users tax	—	10,369
Other taxes	4,798	3,750
Taxes other than on income	35,088	43,975

Taxes other than on income decreased by 20% to RR35,088 million in 2003 from RR43,975 million in 2002. The decrease was primarily attributable to road users tax, which was abolished effective January 1, 2003.

Purchased gas

Cost of purchased gas increased by 198%, to RR29,650 million, in 2003 from RR9,957 million in 2002. The increase was primarily related to purchases of gas from Central Asia for resale to customers in Western Europe, which commenced in January 2003. Purchases of gas from Naftogaz Ukraine and Eural Trans Gas in Europe accounted for approximately RR9,150 million and RR2,400 million, respectively, of the total increase of RR19,693 million. See “Gazprom—Reserves and Production—Projects and Alliances in Reserves and Production.”

Electricity

Electricity expense increased by 81%, to RR24,300 million, in 2003 from RR13,449 million in 2002. The increase resulted primarily from increased usage due to the increased volume of gas transported in Russia, in line with the increased volume of gas sales, the impact of the acquisition of controlling interests in petrochemical companies, an increase in electricity tariffs set by the FEC, and increased electricity consumption due to the higher proportion of electricity-driven equipment used for gas transportation. The proportion of electricity-driven equipment increased from approximately 15% of the total capacity of the equipment used for gas transportation in 2002 to approximately 23% in 2003. The increase in electricity tariffs incurred by us exceeded the average increase in electricity tariffs set by the FEC for the whole of Russia, which was 18% for 2003, as the tariffs differ by region and increases in tariffs set by the FEC in different regions ranged from 15% to 80%. For our five subsidiaries incurring the highest amount of electricity expense in 2003, which accounted for 47% of total electricity expense in 2003 and 57% in 2002, tariffs increased between 15% and 47%.

Processing services

Processing services for refined products increased by 23%, to RR16,243 million, in 2003 from RR13,226 million in 2002. These processing services, which are provided by third parties, primarily pertain to the operations of Sibur, which increased its level of operations following the completion of bankruptcy procedures in September 2002.

Provisions for impairment of assets

Provision expense for the impairment of assets increased by 115%, to RR15,298 million, in 2003 compared to RR7,104 million in 2002. The increase was primarily a result of a charge in respect of

property, plant and equipment in 2003 compared to a net release in 2002, and higher impairment provisions for investments and other long-term assets. These adverse changes were partly offset by a decrease in the impairment provision expense for accounts receivable and prepayments.

The impairment provision for property, plant and equipment resulted in a net charge of RR207 million in 2003 compared to a net release of RR6,883 million for 2002. The charge for 2003 consists of a RR1,778 million net release for assets under construction and a RR1,985 million charge against production assets on the Severo-Vasyuganskoye gas condensate field following a decrease in recoverable reserves. Releases in the impairment provision primarily reflects the strategy of management to focus on priority projects in a systematic way and once again fund projects, which had previously been frozen. In 2003, the release primarily relates to the Long-Yugan-Labytnangi-Salekhard-Kharp pipeline, which was put into operation in the fourth quarter of 2003.

The impairment provision expense for investments and other long-term assets increased by RR3,382 million from a provision release of RR224 million in 2002 to a provision expense of RR3,158 million in 2003. The provision expense in 2003 primarily relates to equity investments in petrochemical companies acquired in the fourth quarter of 2003 and investments in a number of small joint ventures, which had minimal activity and low returns.

The impairment provision expense for accounts receivable and prepayments decreased by RR1,252 million, or 7%, to RR16,159 million in 2003 from RR17,411 million in 2002. The decrease was primarily a result of lower provisions for non-recurring items mainly related to other debtors, which offset increased provisions against older domestic gas receivables. As of December 31, 2003, the aggregate provision related to accounts receivable and prepayments was RR140,837 million or 32% of the gross accounts receivable and prepayments balance.

Provisions for liabilities and charges

Provision expense for liabilities and charges increased by 99%, to RR13,528 million, in 2003 compared to RR6,804 million in 2002. The increase was primarily a result of a higher expense for pension liabilities, which increased by RR5,994 million, or 103%, to RR11,807 million in 2003 from RR5,813 million in 2002. Pension liabilities represent our obligations under our defined benefit plan, which is administered by our subsidiary, NPF Gazfund. The increase was primarily due to a decrease in the assumed discount rate, which resulted from the decline in corporate and government debt yields in Russia, and a voluntary increase by us in vested pensions to provide an inflationary increase in pensions for our current pensioners.

Other operating expenses

Other operating expenses decreased by RR7,951 million, or 22%, to RR28,116 million, in 2003 compared to RR36,067 million in 2002. Other operating expenses include costs related to rental of equipment and vehicles, telecommunications, advertising, and other expenses attributable to the newly consolidated petrochemical subsidiaries.

Operating profit

As a result of the factors discussed above, our operating profit increased by RR78,364 million, or 53%, from RR147,974 million in 2002 to RR226,338 million in 2003. Our operating profit margin increased from 23% in 2002 to 28% in 2003.

Net monetary effects and financing items

	Year ended December 31,	
	2003	2002
	(RR million)	
Net exchange gain (loss)	15,140	(9,435)
Interest income	15,295	10,636
Interest expense	(32,301)	(29,265)
Monetary gain	—	31,380
Gains on and extinguishment of restructured liabilities	4,007	13,908
Net monetary effects and financing items	<u>2,141</u>	<u>17,224</u>

We incurred a net exchange gain of RR15,140 million in 2003 compared to a net exchange loss of RR9,435 million in 2002. The change reflects primarily the impact on foreign currency denominated borrowings of a 7.3% appreciation of the RR against the U.S. dollar in 2003 compared to a 5.4% depreciation in 2002.

Interest expense increased by RR3,036 million in 2003 compared to 2002 primarily due to interest incurred on the debt restructured by Sibur in September 2002 and increase in interest paid by Gazprombank in line with growth in deposits, which more than offset the increased capitalized interest resulting from increased capital expenditures.

Gains on and extinguishment of restructured liabilities decreased by RR9,901 million to RR4,007 million in 2003. This was primarily due to the fact that there were no tax payables eligible for restructuring in 2003, and there was a RR3,124 million gain on the restructuring of Sibur's debts, following the approval of the settlement agreement with Sibur's creditors in 2002. We recognized RR4,007 million of gains in 2003 due to the forgiveness by certain tax authorities of penalties relating to overdue taxes that had previously been restructured.

There was no monetary gain in 2003 as the characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased; effective from January 1, 2003 we no longer apply the provisions of IAS 29. Accordingly, no adjustments for the effects of changes in general purchasing power are recorded in the financial statements subsequent to December 31, 2002.

Share of net income of associated undertakings

Share in net income of associated undertakings decreased by RR807 million to RR3,478 million in 2003 compared to 2002. The decrease was primarily due to lower net profits recorded by WINGAS, due to changes in German tax regulations, increased provisions against non-core associated undertakings and the loss of net income following the sale of our 37% interest in OAO AKB National Reserve Bank in July 2002. These decreases offset higher net profits recorded by EuRoPol GAZ S.A. and the impact of the consolidation as a subsidiary of Sibur-Tyumen in 2003 with respect to which we had recorded losses in 2002 when it was an associated undertaking.

Gains (losses) on available-for-sale investments

In 2003 we recognized gains on available-for-sale investments of RR5,017 million compared to losses of RR3,729 million in 2002. The gains in 2003 were primarily due to the reduction in provisions made in prior years against long-term available-for-sale equity investments. In 2002 we incurred losses primarily due to decreases in the estimated fair value of third party promissory notes held by Sibur and its subsidiaries.

Profit tax

Profit tax expense decreased by RR61,315 million, or 45%, to RR74,817 million in 2003 compared to RR136,132 million in 2002.

Our overall effective profit tax rate decreased from 82% in 2002 to 32% in 2003. The decrease primarily resulted from the fact that from January 1, 2003 we no longer apply the provisions of IAS 29, which eliminated the inflationary increase of the financial reporting base for fixed assets and therefore, reduced the deferred tax expense related to fixed assets. The deferred tax expense resulting from the effect of inflation on our fixed assets for 2002 totaled RR59,160 million.

Our current profit tax expense decreased by RR11,819 million, to RR42,368 million, in 2003 from RR54,187 million in 2002. Our effective current profit tax rate decreased to 18% in 2003 compared to 33% for 2002, primarily resulting from the effect of a "transition period" profit tax in the year ended December 31, 2002 and the impact of increased tax depreciation and the utilization of tax losses at OAO Gazprom in 2003. The transition period profit tax was a one time current tax charge of RR22,637 million resulting from the change in tax legislation, effective January 1, 2002, to recognize profit tax on an accrual rather than a cash basis. Transition period profit tax is payable over a period of up to five years.

Minority interest

Minority interest deducted from results from operations increased by RR2,395 million to RR3,062 million in 2003 compared to RR667 million in 2002. The increase was primarily due to increased earnings of consolidated subsidiaries Purgaz and Sibur.

Net profit

As a result of the factors discussed above, our net profit increased by RR130,140 million, or 449%, from RR28,955 million in 2002 to RR159,095 million in 2003.

Year ended December 31, 2002 versus year ended December 31, 2001

Sales

The following tables set out our volumes and realized prices for the years ended December 31, 2002 and 2001.

	Year ended December 31,	
	2002	2001
	(RR million, unless otherwise indicated)	
Sales of gas		
<i>Europe</i>		
Gross sales (including excise tax) ⁽¹⁾	433,085	520,647
Excise tax.....	(97,970)	(113,449)
Net sales.....	335,115	407,198
Excise tax as a percentage of sales	23%	22%
Volumes in bcm	128.6	127.0
Average price, U.S.\$ per mcm ⁽²⁾ (including excise tax and net of customs duties) ⁽³⁾	102.5	122.6
Average price, constant RR per mcm ⁽²⁾ (including excise tax and net of customs duties).....	3,369.0	4,100.0
<i>FSU</i>		
Gross sales (including excise, net of VAT)	61,506	56,221
Excise tax.....	(10,437)	(7,048)
Net sales.....	51,069	49,173
Excise tax as a percentage of sales	17%	13%
Volumes in bcm	42.6	39.6
Average price, U.S.\$ per mcm ⁽²⁾ (including excise tax and net of VAT and customs duties) ⁽³⁾	45.4	41.5
Average price, constant RR per mcm ⁽²⁾ (including excise tax and net of VAT and customs duties).....	1,444.2	1,417.5
<i>Russia</i>		
Gross sales (including excise, net of VAT)	159,642	133,187
Excise tax.....	(16,788)	(2,716)
Net sales.....	142,854	130,471
Excise tax as a percentage of sales	11%	2%
Volumes in bcm	298.0	300.8
Average price, nominal RR per mcm ⁽²⁾ (including excise tax and net of VAT).....	505.0	357.9
Average price, constant RR per mcm ⁽²⁾ (including excise tax and net of VAT).....	535.7	442.8
<i>Total sales of gas</i>		
Gross sales (including excise, net of VAT and customs duties).....	654,233	710,055
Excise tax.....	(125,195)	(123,213)
Net sales.....	529,038	586,842
Excise tax as a percentage of sales	19%	17%
Volumes in bcm	469.2	467.4
Sales of gas condensate and other oil and gas products (net of excise tax and VAT).....	56,647	74,640
Gas transportation sales (net of VAT).....	18,028	18,226
Other sales (net of VAT)	40,974	33,259
Total sales (net of excise tax, VAT and customs duties).....	644,687	712,967

Notes:

⁽¹⁾ VAT is not charged on sales to Europe.

⁽²⁾ One mcm is equivalent to 35,316 cubic feet.

⁽³⁾ Average actual prices and not a convenience translation.

Net sales revenues fell by RR68,280 million, or 10%, to RR644,687 million in 2002 compared to 2001. Net sales of gas accounted for 82% of total sales in 2002 (82% in 2001) but were RR57,804 million, or 10%, lower than in 2001.

Net sales of natural gas to Europe decreased by RR72,083 million, or 18%, in 2002 compared to 2001. This was primarily due to an 18% decrease in the average price of gas exported to Europe expressed in constant RR from RR4,100.0 per mcm in 2001 to RR3,369.0 per mcm in 2002, reflecting a 16% decrease in the average actual U.S. dollar gas export price per mcm from U.S.\$122.6 in 2001 to U.S.\$102.5 in 2002 following the decrease in U.S. dollar oil prices in the second half of 2001, and the fact that devaluation of the RR against the U.S. dollar continued to lag behind inflation for the comparable periods. The cumulative inflation index for the period from the beginning of 2001 to the end of 2002 was 36.8% while the RR devaluation against the U.S. dollar for the same period was only 12.9%. The decrease in export gas prices was partially offset by a 1.6 bcm, or 1%, increase in export sales volumes, primarily due to increased volumes sold to Germany and Turkey under existing long-term contracts.

Net sales of natural gas to FSU countries increased by RR1,896 million, or 4%, to RR51,069 million in 2002 compared to 2001. This was primarily due to a 2% increase in the average constant RR price of gas and an 8% increase in FSU sales volumes. The main reason for the increase in FSU sales volumes was a 19% or 4.2 bcm increase in sales volumes to Ukraine from 21.9 bcm in 2001 to 26.1 bcm in 2002, which more than offset the decreased shipments of gas shipped to Belarus and Moldova; shipments to Baltic countries remained at the same level. Sales volumes to Ukraine increased as they represent transit gas—i.e., consideration for transportation services provided in Ukraine, which eliminates our collection risk—and our Ukrainian transit costs increased. See “—Operating expenses—Transit costs” below. The average U.S. dollar price for FSU natural gas sales increased by 9%, to U.S.\$45.4 per mcm, in 2002, primarily due to a 34% increase in the contract price of transit gas sales to Ukraine from U.S.\$50 per mcm to U.S.\$67 per mcm in the third quarter of 2002. Despite the 9% increase in the average U.S. dollar price for FSU gas sales the constant RR gas price increased only 2%, reflecting the fact that devaluation of the RR against the U.S. dollar continued to lag behind inflation for the comparable periods. Excise tax increased by 48% or RR3,389 million, primarily due to a change in excise tax legislation effective October 1, 2001, whereby sales of dry gas became subject to excise tax whereas previously such sales had been exempt. The majority of our natural gas sales to the Baltic countries are shipments of dry gas.

Net sales of natural gas in the domestic market increased by RR12,383 million, or 9%, to RR142,854 million in 2002 compared to 2001. This increase was primarily due to a 21% increase in average constant RR domestic prices, which more than offset the 1% decrease in domestic sales volumes, which fell 2.8 bcm to 298.0 bcm in 2002. The decrease in domestic sales volumes was primarily due to a 3.5 bcm decrease in gas sales volumes by Sibur, which substantially reduced its operations at the end of 2001 and during the first six months of 2002. Sibur increased its activity at the end of the third quarter of 2002 after reaching an amicable agreement with its creditors, but this increase was insufficient to offset the decrease in the first six months of 2002. Nominal average domestic natural gas sales prices increased 41% from RR357.9 per mcm in 2001 to RR505.0 per mcm in 2002 following the 20% and a further 15% increase in domestic prices to industrial consumers effective March 1, 2002 and July 1, 2002, respectively, and a 15% increase in domestic prices to the general population effective August 1, 2002. Average constant RR domestic natural gas price increased only 21%, as the increase in nominal prices was partly eroded due to 15.1% inflation in the year ended December 31, 2002. Excise tax on domestic sales increased by RR14,072 million, or 518%, in 2002 compared to 2001, primarily due to the acquisition of controlling interests in many regional trade houses and their subsequent consolidation in 2002. The consolidation of regional trade houses resulted in an increase in our excise tax liability, as the liability to pay excise tax lies with the entity selling gas to the final customer.

Total excise taxes on natural gas sales increased 2%, or RR1,982 million, to RR125,195 million in 2002 from RR123,213 million in 2001, representing 19% and 17% of gross sales of natural gas in 2002 and 2001, respectively.

Sales of gas condensate and oil and gas products decreased by RR17,993 million, or 24%, to RR56,647 million in 2002 compared to RR74,640 million in 2001. This decrease was primarily due to the reduction in operations at Sibur at the end of 2001 and during the first six months of 2002. Sibur's level of operations began to increase beginning at the end of the third quarter of 2002, but this increase was insufficient to offset the decrease in the first six months of 2002. Sibur accounted for 37% and 64% of sales of gas condensate and oil and gas products in 2002 and 2001, respectively.

Gas transportation sales decreased by RR198 million, or 1%, to RR18,028 million in 2002 from RR18,226 million in 2001 due to lower prices in constant RR terms and lower volumes. Approximately

73% of third-party transportation sales were to Itera under U.S. dollar denominated contracts. A 7% increase in the average tariffs we charged Itera (in nominal RR terms after conversion of the U.S. dollar tariffs into RR) was insufficient to offset inflation of 15.1% for the year ended December 31, 2002 and in addition was largely offset by a 6% decrease in the volume of gas we transported for third parties.

Other sales increased by RR7,715 million, or 23%, to RR40,974 million in 2002 compared to RR33,259 million in 2001. Other sales represent activities such as construction work, gas storage services, drilling work and sales of other services and goods.

Operating expenses

Operating expenses decreased by RR10,130 million, or 2%, to RR496,713 million in 2002 compared to RR506,843 million in 2001. Operating expenses increased as a percentage of sales from 71% in 2001 to 77% in 2002. The table below presents a breakdown of operating expenses in each period:

	Year ended December 31,			
	2002		2001	
	(RR million)	(% of net sales)	(RR million)	(% of net sales)
Transit costs.....	102,632	16%	95,105	13%
Depreciation	93,454	14%	99,868	14%
Staff costs.....	65,717	10%	59,456	8%
Materials.....	47,310	7%	59,602	8%
Taxes other than on income	43,975	7%	46,289	6%
Repairs and maintenance	24,218	4%	21,552	3%
Cost of goods for resale, including refined products	17,900	3%	21,085	3%
Impairment and other provisions.....	13,908	2%	41,083	6%
Electricity.....	13,449	2%	11,430	2%
Processing services	13,226	2%	12,595	2%
Purchased gas	9,957	2%	7,466	1%
Social expenses	7,013	1%	6,088	1%
Losses on disposal of property, plant and equipment	6,405	1%	5,849	1%
Insurance	5,825	1%	4,147	1%
Research and development.....	4,464	1%	4,360	1%
Other.....	27,260	4%	10,868	2%
Total operating expenses.....	496,713	77%	506,843	71%

Transit costs

Transit costs increased by RR7,527 million, or by 8%, from RR95,105 million in 2001 to RR102,632 million in 2002. Transit costs relate principally to fees charged by Ukraine, Poland and other Eastern European and Central Asian countries for the transit of gas to markets in Europe. The increase was primarily due to higher transportation tariffs in Ukraine and Poland and an increased volume of transit services. U.S. dollar denominated gas transportation tariffs through the Ukraine increased by 34% from July 1, 2002, from U.S.\$1.09 per mcm per 100 km to U.S.\$1.46 per mcm per 100 km. U.S. dollar denominated gas transportation tariffs through Poland increased by 99% in the fourth quarter of 2002 from approximately U.S.\$1.35 per mcm per 100 km to approximately U.S.\$2.68 per mcm per 100 km. The effect of increased tariffs was partially offset by the fact that transit costs are largely U.S. dollar denominated and the rate of devaluation of the RR against the U.S. dollar in 2002 compared to 2001 was below the rate of inflation for the respective periods.

Depreciation

Depreciation decreased by RR6,414 million, or 6%, to RR93,454 million in 2002 from RR99,868 million in 2001. This decrease was primarily due to an increase in the amount of depreciation included in the cost of gas in storage from RR2,048 million in 2001 to RR5,228 million in 2002. The depreciation associated with those volumes will be expensed in future periods when the gas is sold.

Staff costs

Staff costs increased by RR6,261 million, or 11%, to RR65,717 million in 2002 from RR59,456 million in 2001. There was no significant change in the number of employees, and the increase was primarily due to an increase in staff salaries above inflation.

Materials

The cost of materials used in our activities decreased by RR12,292 million, or 21%, from RR59,602 million in 2001 to RR47,310 million in 2002. The decrease was primarily related to lower prices for material purchases as we reduced the use of non-cash settlements.

Taxes other than on income

Taxes other than on income consist of:

	Year ended December 31,	
	2002	2001
	(RR million)	
Natural resources production tax	20,485	—
Road users tax	10,369	9,924
Property tax	9,371	9,563
Royalty tax	—	12,633
Mineral restoration tax	—	9,090
Other taxes	3,750	5,079
Taxes other than on income	<u>43,975</u>	<u>46,289</u>

Taxes other than on income decreased by RR2,314 million, or 5%, from RR46,289 million in 2001 to RR43,975 million in 2002. This resulted mainly from the replacement of the royalty and mineral restoration taxes payable by production entities with the natural resources production tax effective January 1, 2002. The rate of natural resources production tax was 16.5% of the value of gas produced and of the value of gas condensate produced from gas condensate fields and RR340 per ton of oil and gas condensate produced from oil and gas condensate fields. The latter rate was subject to adjustment depending on fluctuations of oil prices and the RR exchange rate. The rates of this tax have now changed, as described above under “—Certain Factors Affecting our Results of Operations—Our high tax burden.”

Repairs and maintenance

Repairs and maintenance increased by RR2,666 million, or 12%, from RR21,552 million in 2001 to RR24,218 million in 2002 primarily due to the ageing of our production and transportation facilities.

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products, decreased by RR3,185 million, or 15%, from RR21,085 million in 2001 to RR17,900 million in 2002 primarily as a result of the reduction in operations at Sibur in 2002.

Provisions

Provision expenses decreased by RR27,175 million, or 66%, to RR13,908 million in 2002 compared to RR41,083 million in 2001. The decrease primarily resulted from lower provisions in respect of accounts receivable and prepayments, which fell 50%, from RR35,070 million in 2001 to RR17,411 million in 2002, and for impairment of assets under construction, which changed from a RR6,503 charge in 2001 to a RR6,883 million release in 2002.

As of December 31, 2002, the balance of provisions related to accounts receivable and prepayments was RR130,267 million, or 38% of the gross receivable balance, both short-term and long-term.

Provision expense in respect of accounts receivable and prepayments for 2001 includes a RR11,861 million charge as a result of changes in tax legislation effective from January 1, 2001 which required a provision for VAT to be recorded for accounts receivable balances that were provided for (including those provided for in prior periods). Absent this charge, provisions decreased by RR5,798 million in 2002. The decrease was primarily attributable to lower provision expense against trade receivables of Ukraine, which fell from RR18,284 million in 2001 to RR1,081 million in 2002, partially offset by additional provision expenses against trade receivables and prepayments and other receivables.

Provision expense related to impairment of assets under construction decreased by 206% from a RR6,503 million charge in 2001 to a RR6,883 million release in 2002, primarily as a result of our efforts

to focus our capital program on priority projects and thereby reduce our total number of projects, and our allocating funds to projects that had previously been frozen or lacked financing under investment programs for prior years.

Other operating expenses

Other operating expenses increased by RR16,392 million, or 151%, from RR10,868 million in 2001 to RR27,260 million in 2002 primarily due to the impact of the release of the RR9,340 million provision on forward foreign exchange contracts in 2001, and lower gains on trading investments in 2002 as a result of the de-consolidation of National Reserve Bank. See “—Share of net income of associated undertakings.”

Operating Profit

As a result of the factors discussed above, our operating profit decreased by RR58,150 million, or 28%, from RR206,124 million in 2001 to RR147,974 million in 2002. Our operating profit margin decreased from 29% in 2001 to 23% in 2002.

Net monetary effects and financing items

	Year ended December 31,	
	2002	2001
	(RR million)	
Net exchange loss	(9,435)	(5,406)
Interest income	10,636	14,184
Interest expense	(29,265)	(42,902)
Monetary gain	31,380	33,513
Gains on and extinguishment of restructured liabilities	<u>13,908</u>	<u>23,122</u>
Net Monetary Effects and Financing Items	<u>17,224</u>	<u>22,511</u>

Our net exchange loss increased by RR4,029 million, or 75%, to RR9,435 million in 2002, reflecting the impact of (i) a 5.4% devaluation of the RR against the U.S. dollar and a 25.0% devaluation of the RR against the euro in 2002 on our U.S. dollar and euro denominated borrowings (offset in part by the impact of these devaluations on our U.S. dollar and euro denominated receivables) and (ii) an increase in our net foreign currency liability position.

Interest expense decreased by RR13,637 million, or 32%, to RR29,265 million in 2002 compared to 2001 primarily due to a RR6,296 million decrease in interest expense on taxes payable, following a reduction in overdue taxes payable, and a reduction in our borrowing costs resulting from the improved interest rate environment.

Monetary gain decreased by RR2,133 million, or 6%, to RR31,380 million in 2002 compared to 2001 due to the decrease in the rate of inflation and our lower net monetary liability position.

Gains on and extinguishment of restructured liabilities decreased by RR9,214 million, or 40%, to RR13,908 million in 2002. This was primarily due to a significant reduction in tax payables eligible for restructuring in 2002, offset by RR3,124 million of gain on the restructuring of Sibur's debts, following the approval of the settlement agreement with Sibur's creditors on September 10, 2002. We also recognized gains due to the forgiveness by certain tax authorities of fines relating to overdue taxes that had previously been restructured.

Share of net income of associated undertakings

Share of net income of associated undertakings increased by RR198 million, or 5%, to RR4,285 million in 2002 primarily due to an increase in our share of the net income recorded by EuRoPol GAZ S.A. from RR223 million in 2001 to RR2,367 million in 2002, and the inclusion of RR667 million of equity income from National Reserve Bank, offset by our share of the net loss recorded by Sibur-Tyumen of RR1,529 million and of a loss of Moldovagas of RR526 million in 2002 compared to RR487 million of income in 2001. We ceased to exercise control over the activities of National Reserve Bank from January 1, 2002. Accordingly, effective January 1, 2002 we de-consolidated our investment in National Reserve Bank and recorded it as an associated undertaking until we disposed of 37% of our ordinary shares and all of our preference shares of the bank in July 2002. We currently own 3% of the ordinary shares of National Reserve Bank and account for this investment at cost.

Losses on available for sale investments

Losses on available for sale investments increased by RR2,736 million, or 276%, to RR3,729 million in 2002, primarily due to the effect of the de-consolidation of National Reserve Bank. In 2001 National Reserve Bank recognized a gain of RR1,510 million in available-for-sale investments. Our losses on available-for-sale investments also increased due to an increase in provisions against promissory notes of RR580 million related to certain short-term promissory notes held by Sibur and its subsidiaries and a decrease in realized gains on promissory notes of RR629 million following reduction in the scope of transactions with promissory notes.

Profit tax

	Year ended December 31,	
	2002	2001
	(RR million)	
Profit before profit tax and minority interest	<u>165,754</u>	<u>231,729</u>
Theoretical tax charge at the statutory rate thereon.	(39,781)	(81,105)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Inflationary effects.	(63,278)	(101,338)
Non-deductible expenses	(31,644)	(40,535)
Statutory tax concessions	—	13,721
Other non-temporary differences	(1,429)	8,167
Effect of change in tax rate	<u>—</u>	<u>(12,101)</u>
Profit tax expense	<u>(136,132)</u>	<u>(213,191)</u>

Profit tax expense decreased RR77,059 million, or 36%, to RR136,132 million in 2002 compared to RR213,191 million in 2001.

Our current profit tax expense decreased by RR40,770 million, or 43%, to RR54,187 million in 2002 from RR94,957 million in 2001. Our effective current profit tax rate decreased from 41% in 2001 to 33% in 2002. Our high current profit tax rate for 2001 resulted in part from Russian tax regulations that limited the deductibility of some of our operating expenses. The decrease in our current tax rate was primarily due to the application of revised tax depreciation lives for property, plant and equipment following the enactment of Chapter 25 “Profit tax” of the Russian Federation Tax Code on January 1, 2002. The revised tax depreciation tax lives, which became generally shorter, gave rise to current period tax losses in the statutory books of OAO Gazprom. We recognized the results of the assessment of the revised tax depreciation lives for property, plant and equipment in the three months ended September 30, 2002 when such an assessment was completed. Revised tax returns were then filed for the nine months ended September 30, 2002. The current tax benefit as a result of changing depreciation lives was partially offset by RR22,637 million of current profit tax expense in 2002 related to a “transition period” profit tax, which is a one time current tax charge resulting from the change in tax legislation, effective January 1, 2002, to recognize profit tax on an accrual rather than a cash basis. Transition period profit tax is payable over a period of up to five years.

Our high overall effective tax rate of 82% and 92% for 2002 and 2001, respectively, primarily resulted from the impact of non-deductible expenses as described above, as well as from inflation accounting, which among other things, was increasing the book value of our fixed assets compared to their tax basis, resulting in a deferred tax expense. The magnitude of our overall effective tax rate in 2001 also resulted from the impact of the reduction in Russian tax rates from 35% to 24%, which reduced our net deferred tax asset, resulting in a deferred tax expense. Our deferred tax expense was RR81,945 million and RR118,234 million for the years ended December 31, 2002 and 2001, respectively. The depreciation adjustment and transition period profit tax charge referred to in the preceding paragraph did not affect our overall tax rate in 2002 because they were offset by corresponding deferred tax expense and benefit, respectively.

Minority interest

Minority interest deducted from results from operations decreased by RR4,672 million to RR667 million in 2002 compared to RR5,339 million in 2001. This was primarily due to the effect of the de-consolidation of National Reserve Bank effective January 1, 2002 which contributed RR4,235 million to the minority share in equity earnings in 2001.

Net profit

As a result of the factors discussed above, our net profit increased by RR15,756 million, or by 119%, from RR13,199 million in 2001 to RR28,955 million in 2002.

Liquidity and Capital Resources

We make significant capital expenditures to explore for natural gas, to develop our natural gas fields and to produce our natural gas, gas condensate and crude oil, and to maintain and expand the UGSS and international pipelines. Our capital expenditures (including cash advances to contractors and suppliers, which are recorded within long-term accounts receivable and prepayments, and excluding the effect of acquisitions of subsidiaries and reclassifications) were RR204,235 million in 2003, RR180,268 million in 2002 and RR180,815 million in 2001.

We make a significant portion of our capital expenditures using consideration other than cash. See “—Capital expenditures.” For the years ended December 31, 2002 and 2001, our operating cash flows exceeded our cash capital expenditures by significant margins, but were not sufficient to cover our combined cash and non-cash capital expenditures. For the year ended December 31, 2003, however, our operating cash flows were insufficient to cover our cash capital expenditures.

Our business requires significant ongoing capital expenditures in order to maintain our production and transportation systems. An extended period of low gas prices would limit our ability to maintain an adequate level of capital expenditures, which in turn could limit our ability to maintain current levels of production and deliveries of gas, adversely affecting our results.

Other significant uses of our cash flows include servicing our debt and paying dividends. Interest paid and expensed was RR19,204 million, RR22,379 million and RR27,389 million in 2003, 2002 and 2001, respectively. Interest paid and capitalized was RR13,807 million, RR12,998 million and RR16,711 million in 2003, 2002 and 2001, respectively. Total interest paid, both expensed and capitalized, was RR33,011 million, RR35,377 million and RR44,100 million for 2003, 2002 and 2001, respectively. We paid dividends of RR8,479 million, RR10,328 million and RR6,736 million in 2003, 2002 and 2001, respectively.

In 2003, 2002 and 2001, our borrowings exceeded our repayments of debt. Our borrowings net of repayments (including bonds and promissory notes) were RR43,308 million, RR41,803 million and RR25,429 million for 2003, 2002 and 2001, respectively. However, as a result of the inflation of our prior period debt balances due to the application of inflation accounting under IAS 29 prior to January 1, 2003, our debt balances until December 31, 2002 reported in our financial statements have declined despite these net borrowings. See “—Debt Obligations.” Our cash and cash equivalents increased in 2003, 2002 and 2001.

Our plan for 2004 is to finance our budgeted capital expenditures, interest and dividends mainly out of operating cash flows, which we expect to increase through higher domestic tariffs for sales of natural gas and higher prices for, and increased volumes of, the natural gas we export. At the same time, we intend to improve our debt profile by retiring a portion of our short-term RR denominated debt (in particular our short-term RR denominated promissory notes) and by refinancing other RR denominated debt with long-term borrowings in convertible currencies.

Cash flows

The following table summarizes the statements of cash flows for the years ended December 31, 2003, 2002 and 2001.

	Year ended December 31,		
	2003	2002	2001
	(RR million)		
Net cash provided by operating activities	141,846	160,111	163,544
Net cash used for investing activities.	(145,163)	(160,688)	(117,603)
Net cash provided by (used for) financing activities	17,555	3,017	(9,076)

Net cash provided by operating activities

Net cash provided by operating activities decreased to RR141,846 million in 2003 from RR160,111 million in 2002, despite the significantly higher operating income generated by our gas sales during 2003.

The positive impact of higher gas prices on our cash flow was more than offset by negative changes in our net working capital position and higher profit tax paid compared to 2002. The negative change in our working capital position reflected an increase in accounts receivable and prepayments, inventories and other current assets and an increase in available-for-sale and trading investments. See “—Working Capital.”

Net cash provided by operating activities decreased to RR160,111 million in 2002 from RR163,544 million in 2001. The decrease was primarily due to lower margins generated by our sales in 2002, which followed the 18% reduction in the average realized constant RR prices on our gas sales to Europe, and negative changes in our working capital position, reflecting a decrease in accounts payable and taxes payable and increased available-for-sale and trading investments. These two factors more than offset the decrease in profit taxes paid.

Net cash used for investing activities

Net cash used for investing activities decreased to RR145,163 million in 2003 from RR160,688 million in 2002. This 10% decrease was primarily due to the net change in long-term loans and reduced net outflows related to the acquisition and disposal of subsidiaries.

Net cash used for investing activities increased to RR160,688 million in 2002 from RR117,603 million in 2001. Net cash used for investing activities in 2002 includes the effect of the deconsolidation of OAO AKB National Reserve Bank, which resulted in a net cash outflow of RR4,058 million in 2002 as OAO AKB National Reserve Bank previously contributed to the consolidated cash and cash equivalents balance. Absent this change, net cash used for investing activities increased by RR39,027 million in 2002. The 36.6% increase was primarily due to the RR32,671 million increase in cash capital expenditures to RR141,124 million in 2002.

Net cash provided by (used for) financing activities

Net cash provided by financing activities increased to RR17,555 million in 2003 from RR3,017 million in 2002. The increase was primarily due to an increase in net long-term borrowings and reduction in restricted cash, which more than offset the net cash outflow from the net redemption of promissory notes and repayment of short-term borrowings.

Net cash provided by financing activities amounted to RR3,017 million in 2002 compared to net cash used of RR9,076 million in 2001. The 133% increase was mainly the result of an increase in net proceeds from long-term borrowings, which exceeded the net outflows from the redemption of promissory notes, and a reduction in interest paid.

Working capital

Our working capital surplus (current assets less current liabilities) was RR174,335 million as of December 31, 2003 and RR56,221 million as of December 31, 2002. The RR118,114 million increase in our working capital in 2003 was primarily due to an increase in short-term investments, accounts receivable and prepayments and inventory, and a decrease in short-term promissory notes payable, which more than offset the increase in accounts payable and accrued charges. Short-term investments increased by RR28,174 million, primarily due to higher purchases of trading investments by our subsidiary, Gazprombank, and higher purchases of third party promissory notes. Accounts receivable and prepayments increased by RR42,887 million, primarily due to an increase in advances for equipment purchases and higher loans provided by Gazprombank. Inventory increased by RR22,769 million, primarily due to higher volumes and unit costs of gas in storage, higher cost of materials and supplies to be used for operations, partially due to a release of the inventory provision, and higher goods for resale as we follow a program to sell off our excess of unused inventories. Short-term borrowings and short-term promissory notes payable decreased by RR14,201 million and RR13,951 million, respectively, in line with our strategy of refinancing short-term debt with long-term borrowings and eliminating the issuance of promissory notes. We believe that we have sufficient working capital to meet our requirements for at least the next twelve months; however, we are dependent on the short-term credit markets to finance our working capital. See “Risk Factors—Risks Relating to our Business.” We depend on regular access to the domestic rouble bank loan and rouble debt markets to meet a significant portion of our financing requirements.

As of December 31, 2002, our working capital surplus amounted to RR56,221 million compared to RR45,041 million as of December 31, 2001. The RR11,180 million increase in working capital was

primarily due to a decrease in accounts payable and accrued charges by RR27,717 million, a decrease in short-term promissory notes payable by RR29,018 million, a decrease in taxes payable by RR21,896 million, partially offset by a decrease in accounts receivable and prepayments by RR65,729 million and a change in other working capital components by RR1,722 million.

Capital expenditures

Total capital expenditures (including cash advances to contractors and suppliers, which are recorded within long-term accounts receivable and prepayments, and excluding the effect of acquisitions of subsidiaries and reclassifications) by segment for the years ended December 31, 2003, 2002 and 2001 in constant RR terms, except for data as of December 31, 2003 which is in nominal RR, amounted to the following:

	Year Ended December 31,					
	2003		2002		2001	
	(RR million)	(% of total)	(RR million)	(% of total)	(RR million)	(% of total)
Transportation	81,819	40%	86,176	48%	81,631	45%
Production.....	100,541	49%	76,985	43%	74,890	42%
Refining	4,899	2%	7,125	4%	5,371	3%
Distribution.....	9,762	5%	1,663	0%	378	0%
Other ⁽¹⁾	7,214	4%	8,319	5%	18,545	10%
Total	204,235	100%	180,268	100%	180,815	100%

Note:

⁽¹⁾ Primarily includes expenditures for service activities such as drilling, transportation equipment and repair.

The reduction in capital expenditures on transportation and the significant increase in capital expenditures on production in 2003 compared to 2002, represented a temporary change in the trend over the two years ended December 31, 2002. Our budgeted future capital expenditures are discussed below, and indicate our renewed focus on investing in our transportation network.

Total capital expenditures (including cash advances to contractors and suppliers, which are recorded within long-term accounts receivable and prepayments, and excluding the effect of acquisitions of subsidiaries and reclassifications) increased from RR180,268 million in 2002 to RR204,235 million in 2003. The increase was primarily due to increased funding of new production projects including the development of Yamburgskoye, Pestsovoye, Vyngayakhinskoye and Yen-Yakhinskoe fields and Aneryakhinskoe area of the Yamburgskoye field.

Following is a table of our cash and non-cash capital expenditures (including cash advances to contractors and suppliers, which are recorded within long-term accounts receivable and prepayments, and excluding the effect of acquisitions of subsidiaries and reclassifications):

	Year ended December 31,		
	2003	2002	2001
		(RR million)	
Cash capital expenditures	144,370	141,124	108,453
Interest paid and capitalized.....	13,807	12,998	16,711
Mutual cancellations and barter settlements	42,469	42,639	49,133
Other ⁽¹⁾	3,589	(16,493)	6,518
Total capital expenditures	204,235	180,268	180,815

Notes:

⁽¹⁾ Includes changes in accounts payable related to capital construction, changes in promissory notes related to capital construction.

Budgeted total capital expenditures by segment for the year ending December 31, 2004 is, as follows (excluding expenditures for Sibur, Vostokgazprom and Purgaz):

	Year ended December 31, 2004 (RR million)
Production	71,600
Transportation	111,600
Refining	2,380
Distribution	— ⁽¹⁾
Other ⁽²⁾	6,760
Total	<u>192,340</u>

Notes:

⁽¹⁾ For 2004, included within other segments.

⁽²⁾ Primarily includes expenditures for service activities such as drilling and automobile transport and repair.

Our capital expenditures in the six months ended June 30, 2004 were approximately RR87 billion out of the RR192 billion budgeted for the year ending December 31, 2004.

The actual amount and timing of capital expenditures made are subject to adjustment.

Debt obligations

Our borrowings net of repayments (including bonds and promissory notes) were RR43,308 million, RR41,803 and RR25,429 million, for the years ended December 31, 2003, 2002 and 2001, respectively. However, as a result of the inflation of our prior period debt balances due to the application inflation accounting under IAS 29 prior to January 1, 2003, our debt balances in such periods are reported to have declined until December 31, 2002 despite these net borrowings.

Our total borrowings decreased as of December 31, 2002 compared to December 31, 2001 and then increased as of December 31, 2003 compared to December 31, 2002. In spite of the opposite movements in our total borrowings, there have been consistent movements in our long-term and short-term borrowings, reflecting in part our strategy of refinancing short-term debt with long-term borrowings. Our long-term borrowings (including the current portion of long-term borrowings and long-term promissory notes payable), which are predominantly denominated in convertible currencies (mainly the U.S. dollar and the euro), increased in constant RR terms from December 31, 2001 to December 31, 2002 and in nominal RR terms from December 31, 2002 to December 31, 2003. Our short-term borrowings (excluding the current portion of long-term borrowings but including short-term promissory notes payable) decreased in constant RR terms from December 31, 2001 to December 31, 2002 and in nominal RR terms from December 31, 2002 to December 31, 2003.

The following table shows our borrowings at December 31, 2003, 2002 and 2001 expressed in constant RR terms, except for data as of December 31, 2003 which is in nominal RR:

	As of December 31,		
	2003	2002	2001
	(RR million)		
Long-term borrowings			
Fixed interest rate borrowings	247,763	138,612	107,516
Weighted average interest rates for fixed rate borrowings	8.8%	9.2%	9.1%
Variable interest rate borrowings	150,759	207,754	220,910
Weighted average interest rates for variable rate borrowings	4.2%	4.7%	6.4%
Total long-term borrowings	398,522	346,366	328,426
RR denominated borrowings	34,285	33,191	39,767
Foreign currency denominated borrowings	364,237	313,175	288,659
Total long-term borrowings	398,522	346,366	328,426
Less: current portion of long-term borrowings	(94,767)	(97,763)	(91,013)
Add: long-term promissory notes, net of discount	13,715	20,218	14,259
Average discount on promissory notes	12.8%	18.7%	26.5%
Total long-term debt obligations	317,470	268,821	251,672
Short-term debt borrowings			
Fixed interest rate borrowings	61,982	85,421	102,077
Weighted average interest rates for fixed rate borrowings	8.2%	10.1%	16.8%
Variable interest rate borrowings	13,873	1,639	—
Weighted average interest rates for variable rate borrowings	5.3%	6.8%	—
Total short-term borrowings	75,855	87,060	102,077
RR denominated borrowings	25,905	11,134	38,581
Foreign currency denominated borrowings	49,950	75,926	63,496
Total short-term borrowings	75,855	87,060	102,077
Plus: Current portion of long-term borrowings	94,767	97,763	91,013
Short-term promissory notes, net of discount	27,433	41,384	70,402
Average discount on promissory notes	8.9%	16.3%	20.0%
Total short-term debt borrowings	198,055	226,207	263,492
Total borrowings	515,525	495,028	515,164

The following table shows our actual U.S. dollar and euro denominated long-term borrowings (expressed in U.S. dollars) as of December 31, 2003, 2002 and 2001 as well as the same balances expressed in constant RR terms, except for data as of December 31, 2003 which is in nominal RR.

	As of December 31,		
	2003	2002	2001
	(RR million)		
U.S. dollar denominated (expressed in U.S. dollars)	9,690	8,280	6,088
Euro denominated (expressed in U.S. dollars) ⁽¹⁾	2,676	1,625	2,275
Total long-term convertible-currency-denominated borrowings expressed in U.S. dollars	12,366	9,905	8,363
Total long-term convertible-currency-denominated borrowings expressed in constant RR, except for data as of December 31, 2003 which is in nominal RR	364,237	314,818	288,659

Note:

⁽¹⁾ Converted at the euro to U.S. dollar exchange rate of 1.25, 1.04 and 0.88 as of December 31, 2003, 2002 and 2001, respectively.

From December 31, 2000 to December 31, 2003, our actual long-term borrowings denominated in convertible currencies grew, as we increasingly met our financing requirements with long-term borrowings in the capital markets and began to refinance our short-term obligations.

A significant portion of our long-term borrowings denominated in convertible currencies are collateralized by receivables under certain of our export contracts. As of December 31, 2003, 2002 and 2001 borrowings of RR154,858 million, RR219,700 million and RR210,807 million, respectively, inclusive of current portion of long-term borrowings, were secured by revenues from export supplies of gas to Europe. We have not increased our borrowings secured by revenues from export supplies of natural gas to Europe since December 31, 2003.

The following table shows our schedule of repayments for long-term borrowings (excluding long-term promissory notes) as of December 31, 2003 and 2002, expressed in constant RR terms:

	<u>As of December 31,</u>	
	<u>2003</u>	<u>2002</u>
	<u>(RR million)</u>	
Between one and two years.....	68,253	92,378
Between two and five years.....	109,521	132,010
After five years	<u>125,981</u>	<u>24,215</u>
	<u>303,755</u>	<u>248,603</u>

For a presentation of our long-term borrowings incurred since December 31, 2003, see the final paragraph under “Capitalization.”

Contractual obligations and other commitments

The amount of outstanding guarantees issued to third parties increased by RR2,057 million to RR89,764 million as of December 31, 2003 as compared to December 31, 2002 primarily as a result of guarantees issued to Eural Trans Gas in the amount of RR6,274 million and to NAK Naftogaz Ukrainy in the amount of RR2,945 million, which more than offset decreases in the outstanding amounts of existing guarantees. See “Gazprom—Transportation—Third-party Access to the UGSS.”

The amount of outstanding guarantees issued to third parties increased by RR7,423 million to RR87,707 million as of December 31, 2002 as compared to December 31, 2001. RR15,368 million of the increase was due to guarantees issued to banks for the construction of the offshore portion of the Blue Stream pipeline. As of December 31, 2002 our guarantees balance included RR6,213 million of guarantees issued by subsidiaries under contracts for purchases of equipment, construction and installation works.

We have significant obligations to supply gas under long-term contract with European customers.

Qualitative and Quantitative Disclosures and Market Risks

We are exposed to market risk from changes in commodity prices, foreign currency exchange rates, interest rates and prices of marketable securities. We are exposed to commodity risk as we are a commodity business and our natural gas export sales are linked to oil product prices. We are exposed to foreign exchange risk to the extent that our sales revenues, costs, receivables for gas sales and debt are denominated in currencies other than RR. We are subject to market risk from changes in interest rates that may affect the cost of our financing. Other than in our banking subsidiaries, we do not use financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks and we do not hold or issue derivative or other financial instruments for trading purposes.

Foreign Currency Risk

Our principal exchange rate risk involves changes in the value of the RR relative to the U.S. dollar and euro. At December 31, 2003, approximately RR326,930 million and RR87,257 million of our borrowings were denominated in U.S. dollars and euros, respectively (out of RR474,377 million of our total borrowings, excluding promissory notes, at that date). Decreases in the value of the RR relative to the U.S. dollar or euro will increase our foreign currency denominated costs and expenses and our debt service obligations for foreign currency denominated borrowings in RR terms. A depreciation of the RR relative to the U.S. dollar or euro will also result in a decrease in the value of our foreign currency borrowings in RR terms. We believe that the risks associated with our foreign currency exposure are mitigated by the fact that a significant portion of our revenues, approximately 63% in 2003, are U.S. dollar or euro denominated. As of December 31, 2003 the RR had appreciated against the U.S. dollar by approximately 7.3% and depreciated against the euro by approximately 11.2% since January 1, 2003.

A hypothetical, instantaneous and unfavorable 10% change in currency exchange rates on December 31, 2003 and 2002 would have resulted in additional interest expense, including default interest, of approximately RR3,183 million and RR2,549 million (nominal) in 2003 and 2002, respectively, reflecting the increased costs in RR of servicing our foreign currency denominated borrowings held as of December 31, 2003 and 2002. A hypothetical, instantaneous and unfavorable 10% change in currency exchange rates as of December 31, 2003 and 2002 would have resulted in an estimated foreign exchange loss of approximately RR41,419 million and RR41,567 million (nominal) on foreign currency denominated borrowings held as of December 31, 2003 and 2002, respectively.

Interest Rate Risk

We are exposed to interest rate risk in our borrowings that bear interest at floating rates. As of December 31, 2003 and 2002, we had RR474,377 million and RR433,426 million in total borrowings (excluding promissory notes), of which approximately RR309,745 million and RR224,033 million bore interest at fixed rates and approximately RR164,632 million and RR209,393 million bore interest at floating rates determined by reference to the London inter-bank offered rate ("LIBOR") for U.S.\$ and euro deposits, respectively.

A hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate applicable to floating rate financial liabilities held as of December 31, 2003 and 2002 would have resulted in additional net interest expense of approximately RR1,860 million and RR2,050 million (nominal) in 2003 and 2002, respectively. This sensitivity analysis is based on the assumption of an unfavorable 100 basis point movement of the interest rate applicable to each homogenous category of financial liabilities. A homogeneous category is defined according to the currency in which financial liabilities are denominated and assumes the same interest rate movement within each homogeneous category (e.g. U.S.\$ and euro).

A hypothetical, instantaneous and unfavorable change (decrease) of 100 basis points in the interest rate would have resulted in an increase of fair value of fixed rate financial liabilities held as of December 31, 2003 and 2002 to RR10,773 million and RR1,545 million, respectively.

Derivatives

For the purpose of reducing currency risk, our banking subsidiaries use a number of derivative instruments. These comprise forward foreign exchange contracts and written foreign currency option contracts. The objective, when using any derivative instrument, is to ensure that the risk to reward profile of any transaction is optimized. The normal policy is to measure these instruments at their fair value, using the spot rate at the year end as the basis for the fair value measurement with resultant gains or losses being reported within gains less losses arising from dealing in foreign currencies within the statement of operations. These derivatives are not material to the Group.

Commodity risk

Substantially all of our natural gas, gas condensate and other hydrocarbon export sales to Europe are sold under long-term contracts. Our natural gas export prices to Europe are based on a formula linked to world oil product prices, which in turn are linked to world crude oil prices. Worldwide political developments and the actions of the Organization of Petroleum Exporting Countries affect crude oil prices and thus our natural gas export prices. We do not use any derivative instruments to hedge our production in order to decrease our price risk exposure.

Securities price risk

We are exposed to movements in the prices of marketable securities that we hold in our investment portfolio. Specifically, as of December 31, 2003, we held RR22,109 million of corporate shares and bonds and RR7,775 million of state and municipal securities. A change in Russia's sovereign credit rating, or an external event that impacts Russian debt and equity prices, could have an impact on the market value of our trading securities.

SUMMARY OF CERTAIN DIFFERENCES BETWEEN IFRS AND U.S. GAAP

The financial information included herein is prepared and presented in accordance with IFRS. Certain differences exist between IFRS and U.S. GAAP, which might be material to the financial information herein. The matters described below summarize certain differences between IFRS and U.S. GAAP that may be material. We have not prepared a complete reconciliation of our consolidated financial statements and related footnote disclosures between IFRS and U.S. GAAP and have not quantified such differences. Accordingly, no assurance is provided that the following summary of differences between IFRS and U.S. GAAP is complete. Potential investors should consult their own professional advisors for an understanding of the differences between IFRS and U.S. GAAP, and how those differences might affect the financial information herein.

IFRS	U.S. GAAP
Accounting framework	
Historical cost basis, adjusted for inflation by applying the consumer price index, for the periods when Russia was considered highly inflationary (through December 31, 2002). However, generally financial assets and liabilities must be carried at fair value.	Similar to IFRS.
Depreciation of property, plant and equipment	
The depreciable amount of an item of property, plant and equipment must be allocated on a systematic basis over its useful life, reflecting the pattern in which the asset's benefits are consumed by the entity. Any changes in the depreciation method used are treated as change in accounting estimate reflected in the depreciation charge for the current and prospective periods.	Similar to IFRS, except that U.S. GAAP classifies a change in the depreciation method as a change in accounting policy. The cumulative effect of the change is then reflected in the current year's income statement.
We use the straight-line method for depreciating all our property, plant and equipment. In making depreciation estimates, and considering the corresponding asset lives, the company includes periods beyond the initial license period date in circumstances where the company has both the right to request and the intent to renew such licenses.	U.S. GAAP has specific accounting guidance for oil and gas producing companies that requires the application of the units-of-production method for depreciation, depletion and amortization of oil and gas producing assets. Additionally, for the purpose of calculating depreciation, depletion and amortization charges under the units-of-production method and complying with other specific oil and gas accounting prescribed by U.S. GAAP, the definitions of proved reserves are the definitions adopted by the SEC for its reporting purposes that are in effect on the dates for which such calculations and other disclosures are required under U.S. GAAP. Previously reported quantities are not revised retroactively if the SEC definitions are changed.
Impairment of assets	
An entity must assess annually whether there are any indications that an asset may be impaired. If there is any such indication, the assets must be tested for impairment. An impairment loss must be recognized in the statement of operations when an asset's carrying amount exceeds its recoverable amount (see below).	Similar to IFRS except that for assets to be held and used, impairment is first measured by reference to undiscounted cash flows. If impairment exists the entity must measure impairment by comparing the asset's carrying value to its fair value. If there is no impairment by reference to undiscounted cash flows, no further action is required but the useful life of the asset must be reconsidered.

IFRS

The impairment loss is the difference between the asset's carrying amount and its recoverable amount. The recoverable amount is the higher of the asset's net selling price and its value in use. Value in use is the future cash flows to be derived from the particular asset, discounted to present value using a pre-tax market determined rate that reflects the current assessment of the time value of money and the risks specific to the asset.

An impairment loss recognized for an asset should be reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized, in which case, the carrying amount of the asset should be increased to its recoverable amount.

U.S. GAAP

The impairment loss is based on the asset's fair value, being either market value (if an active market for the asset exists) or the sum of discounted future cash flows. The discount rate reflects the risk specific to that asset.

For assets to be disposed of, the loss recognized is the excess of the asset's carrying amount over its fair value less cost to sell. Such assets are not depreciated or amortized during the selling period.

Prohibits reversals of impairment losses for assets to be held and used. Subsequent revisions, both increases and decreases, to the carrying amount of an asset to be disposed, must be reported as adjustments to the carrying amount of the asset but limited by the carrying amount at the date the decision to dispose of the asset is made.

Comprehensive income

IFRS does not require disclosure of comprehensive income.

U.S. GAAP requires disclosure of comprehensive income, which is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distribution to owners.

Business combinations

Business combinations can be in the form of either an acquisition or a uniting of interest. Acquisitions are the most common and uniting of interests are severely restricted.

The date of acquisition is the date on which the acquirer obtains control over the acquired entity.

The purchase method records the assets and liabilities of the acquired entity at fair value. The cost of acquisition is the amount of cash or cash equivalents paid (or fair value of non-monetary assets exchanged). Where consideration comprises an exchange of shares, specific guidance applies under each of the two frameworks. Under IFRS, shares issued as consideration are recorded at their fair value as at the date of the exchange, being the date when the acquirer obtains control over the net assets and operations of the acquiree. When the acquisition occurs in stages, the fair value of the shares issued as purchase consideration is determined at each exchange date. In an active market the published price of a share at the date of exchange is the best evidence of fair value.

All business combinations initiated after June 30, 2001 are acquisitions and accounted for in accordance with one method—the purchase method. Before June 30, 2001, business combinations were accounted for using either the purchase method or the pooling-of-interests method.

The date of acquisition is the date on which assets are received or securities are issued.

Similar to IFRS.

Shares issued as consideration are measured at their market price over a reasonable period of time (interpreted to be a few days) before and after the parties reach an agreement on the purchase price and the proposed transaction is announced. The date for measuring the value of marketable securities must not be influenced by the need to obtain shareholder or regulatory approval.

Definition of a subsidiary

Focuses on the concept of the power to control in determining whether a parent/subsidiary relationship exists. Control is the parent's ability to govern the financial and operating policies of a subsidiary to obtain benefits. Subsidiaries are consolidated from the date on which effective control is transferred and are no longer consolidated from the date control ceases. Generally companies own more than 50% of the voting interests in these subsidiaries.

Focuses on a controlling financial interest through ownership of a majority voting interest or by contract, coupled with control. Also variable interest entities (VIEs) in which a parent does not have voting control but absorbs the majority of losses or returns must also be consolidated.

Special purpose entities (SPEs)

Consolidate where the substance of the relationship indicates control.

SPEs must be consolidated if consolidation requirements for VIEs are met. To avoid consolidation, the SPE must be a qualifying SPE.

Goodwill

Capitalize and amortize over its useful life. There is a rebuttable presumption that the useful life of goodwill does not exceed 20 years. In very rare cases goodwill may be demonstrated to have a useful life in excess of 20 years. If the useful life does exceed 20 years, amortization is still mandatory and the reasons for rebutting the presumption must be disclosed.

For fiscal years beginning after December 15, 2001 goodwill should not be amortized but should be tested for impairment at least annually at the reporting unit level. For prior periods, goodwill was required to be capitalized and amortized over a useful life not to exceed 40 years. It was also required to be tested for impairment if factors indicated that impairment may exist.

Negative goodwill relating to expected future losses or expenses identified in the acquirer's plan for the acquisition must be recognized in the statement of operations when those losses/expenses occur. Otherwise negative goodwill not exceeding the fair value of acquired identifiable, non-monetary assets must be recognized in the statement of operations on a systematic basis over the useful lives of such assets. Where negative goodwill exceeds the fair value of non-monetary assets it must be immediately recognized in the statement of operations.

Treatment of an excess of fair value of acquired net assets over cost of acquisition under U.S. GAAP is similar to IFRS with the exception of provision for expected future losses which is not allowable as part of fair-value exercise for the purposes of determination of goodwill under U.S. GAAP.

Inventories

Carried at the lower of cost or net realizable value (being sale proceeds less all further costs to bring the inventories to completion). Reversal is required for a subsequent increase in value of inventory previously written down.

Broadly consistent with IFRS, in that the lower of cost and market value is used to value inventories. Market value is defined as being current replacement cost subject to an upper limit of net realizable value and a lower limit of net realizable value less a normal profit margin. Reversal of a write down is prohibited.

Taxation

Current and deferred taxes are measured based on tax laws and rates that have been enacted or “substantively enacted” by the balance sheet date. “. . . in some jurisdictions, announcements of tax rates (and tax laws) by the government have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In these circumstances, tax assets and liabilities are measured using the announced tax rate (and tax laws).”

Current and deferred taxes are measured using enacted tax laws and rates. For federal tax purposes in the United States, the enactment date is the date that the president signs the tax law. Enactment of a new tax law is viewed as a discrete event of the period of enactment.

Restructured Liabilities

Liabilities are remeasured (extinguished) and gain or loss recognized when there is a significant modification of terms.

Liabilities are remeasured and gain or loss recognized in accordance with EITF 96-19, “Debtors Accounting for a Modification in Exchange of Debt Instruments” which is more restrictive than IFRS concerning what represents a significant modification of terms.

Deferred tax assets

Deferred tax assets are recognized when it is probable that future taxable profits will be available against which the deferred tax asset can be utilized. The carrying amount of the deferred tax asset is reviewed at each balance sheet date and reduced if appropriate.

Similar to IFRS but recognize all deferred tax assets and provide a valuation allowance if it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. There are a number of specific differences in application.

Segment reporting

Report primary and secondary (business and geographic) segments based on risks and returns.

Report based on internal reporting segments. Operating segments are those business activities for which discrete information is available, and whose operating results are regularly reviewed by the entity’s chief operating decision maker in determining resource allocation and assessing performance.

Related parties

There is no specific requirement in IFRS to disclose the name of the related party (other than the ultimate parent entity) or the amounts involved in a transaction. Disclosure of “pricing policy” is required along with the elements of transactions necessary for an understanding of the financial statements. IFRS also currently exempts state controlled enterprises from disclosing transactions with other state controlled enterprises. IFRS also currently excludes from related parties government departments and agencies to the extent that such dealings are in the normal course of business.

Transactions involving related parties cannot be presumed to be carried out on an arm’s-length basis, as the requisite conditions of competitive, free-market dealings may not exist. U.S. GAAP requires the disclosure of any changes in the method of establishing “terms” for related party transactions and the resulting effect on the financial statements. In addition disclosure of the nature of the relationship, a description of the transaction, the amounts for each period, and the amounts due to or from related parties is required. US GAAP contains no exemptions for disclosing transactions with other state controlled enterprises but requires disclosure of all material related party transactions.

Supplemental oil and gas disclosures

No specific oil and gas accounting standards exist under IFRS and no requirement to publish supplemental oil and gas disclosures.

Unaudited supplemental oil and gas disclosures as stipulated in SFAS 69 are required for public companies.

Guarantees

Guarantees are recognized as part of provisions and should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

Upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under the guarantee. The fair value of guarantees may be represented by transactions for similar guarantees on a stand-alone basis or part of bundled transactions or the present value of future expected economic outflows. Subsequent to its initial recognition, the liability for a guarantee should not continue to be measured at its fair value but amortized into earnings through a systematic method over the term of the guarantee or released at the expiration of obligation based on the terms of the obligation.

THE ISSUER

Gazprom International S.A. (the “Issuer”) was incorporated as a *société anonyme* on June 28, 2004 (for an unlimited duration) with limited liability under the laws of the Grand Duchy of Luxembourg. The Articles of Incorporation of the Issuer have been amended by an extraordinary general meeting of its shareholders held on July 13, 2004, and such Articles of Incorporation and the amendments hereto have not yet been published in the *Mémorial C, Recueil des Sociétés et Associations*. It is registered with the Register of Commerce and Companies, Luxembourg under number B-101526. Gazprom International S.A. has no operating history.

Its registered office is located at 46/A, av. JF Kennedy, L-1855 Luxembourg.

Gazprom International S.A.’s subscribed share capital amounts to €31,000 divided into 310 registered ordinary shares with a par value of €100 each. All of the shares are fully paid up. One hundred and fifty-five shares are owned by Stichting Secured Export Notes I and one hundred and fifty-five shares by Stichting Secured Export Notes II. Gazprom International S.A. is not a subsidiary of Gazprom or Gazexport.

Gazprom International S.A. has a Board of Directors, currently consisting of three directors. The directors at present are:

- Manacor (Luxembourg) S.A. having its registered office at 46/A, av. JF Kennedy, L-1855 Luxembourg, registered with the Luxembourg Register of Commerce and Companies under B-9098;
- Mutua (Luxembourg) S.A. having its registered office at 46/A, av. JF Kennedy, L-1855 Luxembourg, registered with the Luxembourg Register of Commerce and Companies under B-41471; and
- Fides (Luxembourg) S.A. having its registered office at 46/A, av. JF Kennedy, L-1855 Luxembourg, registered with the Luxembourg Register of Commerce and Companies under B-41469.

ABN AMRO Trust Company (Luxembourg) S.A. is the domiciliation agent of Gazprom International S.A. Its duties include the provision of certain administrative and related services. Its appointment may be terminated and it may retire upon two months or in the case of a relocation of the registered seat of the Issuer, not less than ten (10) days prior notice subject to the appointment of an alternative domiciliation agent.

The corporate object of Gazprom International S.A., as described in Article 3 of its Articles of Incorporation, is:

- the issue of notes, bonds and other debt securities under a program for the purpose of making loans to Open Joint Stock Company Gazprom;
- the granting of loans to Open Joint Stock Company Gazprom;
- the granting of assignments in respect of its rights, interests and benefits under contracts entered into by it in relation to the issuance of the notes, bonds and other debt securities; and
- the making of deposits at banks or with other depositaries.

Gazprom International S.A. may carry out any transactions, whether commercial or financial which are directly or indirectly connected with its corporate object at the exclusion of any banking activity.

In general Gazprom International S.A. may carry out any operation which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

PricewaterhouseCoopers s.à.r.l. , having its registered office at 400, route d’Esch, L-1014 Luxembourg, has been appointed to act as statutory auditors to Gazprom International S.A.

Capitalization

The following table sets forth the unaudited capitalization of Gazprom International S.A. as at the date of this Offering Circular:

	€
Shareholder's Funds	
Share capital (issued 310 Ordinary Shares of €100 each).....	31,000
Total Capitalization.....	31,000

Financial Information

Gazprom International S.A.'s fiscal year will end on December 31 of each year, and its financial statements will be prepared in accordance with Luxembourg GAAP. The statutory auditors of Gazprom International S.A. are PricewaterhouseCoopers s.à.r.l.

There is no litigation pending or, to the knowledge of Gazprom International S.A., threatened, against Gazprom International S.A. that, if adversely determined, would have a material adverse impact on the financial condition or results of operations of Gazprom International S.A.

GAZPROM

Overview

We are the world's largest natural gas company, and the world's largest publicly-traded hydrocarbons company, in terms of reserves, production and transportation. We supply substantially all of the natural gas consumed in Russia, a significant proportion of the volume of natural gas consumed in six FSU countries to which we export our natural gas—Belarus, Estonia, Latvia, Lithuania, Moldova and Ukraine—and approximately 25% of the natural gas consumed in Europe, making us the largest supplier of natural gas to Europe. For the year ended December 31, 2003, our sales net of excise tax, value added tax and customs duties were RR819,753 million (U.S.\$27.8 billion) and our operating profit was RR226,338 million (U.S.\$7.7 billion). As of December 31, 2003, we had total assets of RR2,764,087 million (U.S.\$93.9 billion) and total shareholders' equity of RR1,855,130 million (U.S.\$63.0 billion).

Reserves. We estimate our reserves using the Russian reserves system, which differs significantly from internationally accepted classifications and methodologies developed by the Society of Petroleum Engineers and approved by the Joint Reserves Evaluation Committee ("SPE International Standards"), in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. As of December 31, 2003, we had Russian reserves system combined ABC1 reserves of 28.0 tcm (989.1 tcf) of natural gas, 1,279.8 million tons (9.4 bbls) of gas condensate and 569.1 million tons (4.2 bbls) of crude oil, for a total of 178,390.2 mmboe. As of March 31, 2004, we had Russian reserves system combined ABC1 reserves of 27.9 tcm (985.3 tcf) of natural gas, 1,278.2 million tons (9.4 bbls) of gas condensate and 569.9 million tons (4.2 bbls) of crude oil, for a total of 177,542.6 mmboe. Over 80% of our Russian reserves system combined ABC1 natural gas reserves are located in western Siberia and are geographically concentrated. As of March 31, 2004, our three largest producing fields, Urengoiyskoye, Yamburgskoye and Zapolyarnoye, all located in the Yamal-Nenets Region in western Siberia, accounted for 12.8 tcm of ABC1 natural gas reserves, or 46% of our total combined ABC1 natural gas reserves. The majority of our reserves outside of western Siberia are located in the Barents Sea and southern Russia.

Since 1997, DeGolyer and MacNaughton, an independent U.S. petroleum engineering consulting firm, has evaluated our reserves according to SPE International Standards. As of December 31, 2003, DeGolyer and MacNaughton had completed evaluations of 19 fields (21 deposits) accounting for approximately 90% of our combined ABC1 natural gas reserves, approximately 91% of our combined ABC1 gas condensate reserves and approximately 64% of our combined ABC1 crude oil reserves. As of December 31, 2003, these 19 fields (21 deposits) contained proved reserves of 16.6 tcm (587.4 tcf) of natural gas, 423.8 million tons (3,106.7 mmbls) of gas condensate and 8.4 million tons (61.9 mmbls) of crude oil, for a total of 100,695.0 mmboe, and probable reserves of 1.8 tcm (65.3 tcf) of natural gas, 154.1 million tons (1,129.5 mmbls) of gas condensate and 98.8 million tons (724.5 mmbls) of crude oil, for a total of 12,739.3 mmboe. We believe that the fields evaluated by DeGolyer and MacNaughton are likely to contain most of our reserves that would be deemed proved or probable upon a full evaluation of our upstream properties according to SPE International Standards.

SPE International Standards differ from the standards applied by the United States Securities and Exchange Commission ("SEC Standards"). See "—Reserves and Production—Reserves—Differences between SPE International Standards and SEC Standards."

Exploration and Production. As of March 31, 2004, licenses held by Gazprom and our wholly-owned subsidiaries included 36 for exploration and assessment (without development rights) with terms of up to five years, 16 combined hydrocarbon exploration, assessment and production licenses with initial terms of 25 years and with remaining terms of mostly between 18 and 23 years and 74 production licenses with initial terms of 20 to 25 years and with remaining terms of mostly between 11 and 23 years.

In the year ended December 31, 2003, we produced 540.2 bcm (19,078 bcf) of natural gas, 10.2 million tons (74.9 mmbls) of gas condensate and 802,800 tons (5.9 mmbls) of crude oil, for a total of 3,259.7 mmboe, as compared with 521.9 bcm (18,341 bcf) of natural gas, 9.9 million tons (72.6 mmbls) of gas condensate and 706,400 tons (5.2 mmbls) of crude oil, for a total of 3,149.6 mmboe, in the year ended December 31, 2002. In the three months ended March 31, 2004, we produced 144.9 bcm (5,117 bcf) of natural gas, 2,783.5 million tons (20.4 mmbls) of gas condensate and 230,800 tons (1.7 mmbls) of crude oil, for a total of 874.7 mmboe, as compared to 144.1 bcm (5,089 bcf) of natural gas, 2,583.7 million tons (18.9 mmbls) of gas condensate and 197,200 tons (1.4 mmbls) of crude oil, for a total of 868.5 mmboe, in the three months ended March 31, 2003. Our natural gas production represented approximately 87.1% of

total natural gas production in Russia in 2003, as compared with 87.7% in 2002. Four of our production subsidiaries, Urengoigazprom, Yamburggazdobysha, Noyabrskgazdobysha and Nadymgazprom, together produced 91.1% of our natural gas in 2003, as compared with 91.8% in 2002. The Zapolyarnoye field, which came on stream in the third quarter of 2001, produced approximately 67.5 bcm and 36.8 bcm of natural gas in 2003 and 2002, or approximately 12% and 7% of our total natural gas production in those years, respectively.

Exports. We export our natural gas to Europe through our wholly-owned trading subsidiary, Gazexport. Our exports to Europe accounted for approximately 29.2% and 27.4% of the volume of the natural gas we sold in 2003 and 2002, respectively, and 64.7% and 63.3% of our natural gas net sales revenues in those years. According to the statistical survey CEDIGAZ, “The 2003 Natural Gas Year in Review—CEDIGAZ First Estimates” (April 2004), we supplied 20% of the volume of natural gas consumed in western Europe and 62% of the volume of natural gas consumed in central and eastern Europe in 2003. Most of our exports to Europe are transported by pipeline through Ukraine and Belarus.

Domestic sales. We sell our products domestically through OOO Mezhtregiongaz (“Mezhtregiongaz”) and our regional trade houses to end consumers. In the past, we did not sell natural gas to household consumers, but as we gained influence over gas distribution companies through the acquisitions described below, we began to make sales to household consumers.

Transportation. We own and operate the Unified Gas Supply System (the “UGSS”), which gathers, processes, transports, stores and delivers substantially all the natural gas sold in Russia. The UGSS comprises the world’s largest high-pressure trunk pipeline system, with a total length of over 151,600 km (not including connecting pipelines), 264 compressor stations and 24 underground natural gas storage facilities as of December 31, 2003. We control and manage the transportation of gas in the UGSS network from our central dispatch management center, located in Moscow. We transported 674.1 bcm and 637.1 bcm through the UGSS in 2003 and 2002, respectively. Although we use most of the UGSS capacity for the transportation of the natural gas we produce or purchase, we also provide gas transportation services to third parties. Deliveries on behalf of third parties accounted for 83.3 bcm and 75.3 bcm of the natural gas supplied through the UGSS in 2003 and 2002, respectively.

Beginning in the late 1990s, we began acquiring interests through debt for equity swaps in gas distribution companies. As of December 31, 2003, we had controlling interests in 114, and non-controlling interests in an additional 71, of the approximately 320 gas distribution companies in Russia. These gas distribution companies own and operate medium- and low-pressure pipelines that transport gas to end consumers.

Processing and Refining. Our refining operations are carried out by our refining facilities, including those of our majority-owned petrochemicals subsidiary Sibur.

Our refining facilities, other than Sibur’s, process natural gas for pipeline transportation, stabilize gas condensate and refine natural gas, gas condensate and crude oil into refined products. The processing, stabilizing and refining of natural gas, gas condensate and crude oil is carried out by six integrated refineries that remove hazardous and corrosive substances from natural gas and gas condensate and produce a broad range of products. The refineries also stabilize and refine unstable gas condensate and crude oil as a single crude oil and gas condensate mixture. Our refineries produce products derived from natural gas such as dry marketable natural gas, de-ethanized natural gas, liquified natural gas, ethane, helium, sulfur and odorant. Stabilized and refined products derived from gas condensate and crude oil include stable gas condensate, gas condensate distillate, diesel fuel, furnace fuel oil and automobile gasoline. In 2003, our refining facilities, excluding Sibur’s, processed and refined 39.7 bcm of natural gas and 17.2 million tons (125.7 mmbbls) of unstable gas condensate and crude oil, for a total volume of 359.4 mmboe, compared to 39.3 bcm of natural gas and 16.9 million tons (123.9 mmbbls) of unstable gas condensate and crude oil, for a total volume of 355.2 mmboe, in 2002.

Sibur is one of the leading Russian producers of petrochemical products. According to Sibur’s management estimates, Sibur accounted for 48% of the production of synthetic rubber, 47% of the production of tires, 18% of the production of polyethylene, 35% of the production of polypropylene and 31% of the production of liquified gases in Russia in 2003. Sibur’s output is used in the production of plastics, high-octane gasoline and other products in the automotive, agricultural, construction and aerospace industries. See “—Refining—Sibur.”

Relationship with the Government. The Russian Federation currently owns 38.37% of our shares directly, and representatives nominated by the Government currently hold five of the 11 seats on our

Board of Directors. Moreover, our subsidiaries held approximately 16.2% of our shares as of December 31, 2003, which they are entitled to vote as owners. In addition, our transportation activities are a “natural monopoly” under the Russian Federal Law “On Natural Monopolies” No. 147-FZ dated August 17, 1995. As a result, the Government regulates and sets the prices we charge for gas supplied to the domestic market, the tariffs we charge for the transportation of third parties’ gas through the UGSS and other matters affecting our business. For example, we have our budget, capital expenditure program and borrowing program approved by the Government. Through its share ownership, representation on our Board of Directors and role as our regulator, the Government has a strong influence over our operations and our dividend policy. At the same time, we play a significant role in Russia’s financial system and economy. According to our analyses, we accounted for approximately 20% of federal budget revenues and approximately 10% of foreign exchange earnings of the Russian Federation in 2003. See “Risk Factors—Risks Relating to our Business—The Government has exercised, and can be expected to continue to exercise, a strong influence over our operations.”

Strategy

Our main strategic objective is to maintain and strengthen our position as a leading gas company, both domestically and globally, by continuing to adapt to a rapidly changing business environment. To achieve this objective, we plan to:

- meet our natural gas production target of 550-560 bcm by 2010, increasing to 580-590 bcm by 2020 and 610-630 bcm by 2030;
- ensure the effective, reliable and balanced supply of gas to Russian customers; and
- fulfill our long-term export contracts and inter-governmental agreements on gas supply.

To implement these plans, we have developed a number of strategic priorities, including:

Developing new cost-effective sources of supply from our existing reserves base to replace production declines in our largest fields. Based on (i) our current export contract portfolio, (ii) anticipated future demand and prices domestically, and (iii) our reserves base, we believe that achieving annual natural gas production of 550-560 bcm by 2010, increasing to 580-590 bcm by 2020 and 610-630 bcm by 2030, is strategically optimal. In light of expected continuing production declines from three of our large west Siberian fields (Urengoi, Yamburg and Medvezhye), which accounted for approximately 61.8% of our total natural gas production in 2003, but only 35.9% of our total combined ABC1 natural gas reserves as of December 31, 2003, we intend to continue to invest in developing new production. Production from the Zapolyarnoye field began in 2001 and reached approximately 36.8 bcm in 2002 and 67.5 bcm in 2003. We intend to invest \$18.0 billion in 2004 and 2005 in developing the Zapolyarnoye field to full capacity in 2005, after which its production should reach 100 bcm per year. We also intend to invest in new production from our other western and eastern Siberian, Far Eastern and southern Russian deposits, the Yamal Peninsula and also in off-shore fields, including the Obshchaya-Tazovskaya Bay. See “—Reserves and Production—Development Activities.” To develop and maintain this production as efficiently as possible, we intend to work closely with international energy service companies and local institutes, both of which are essential to ensuring the best use of the latest technologies.

Purchasing gas from Central Asia. To help maintain and increase our natural gas sales while production from our mature fields declines and new fields are being developed, we have signed long-term agreements to purchase natural gas from Turkmenistan and Uzbekistan. Purchases from GTK Turkmenneftegaz, the state oil and gas company of Turkmenistan, are expected to be 5-6 bcm in 2004 and may rise to 6-7 bcm in 2005 and up to 10 bcm in 2006. These purchases could reach 60-70 bcm in 2007 and 70-80 bcm annually from 2009 to 2028, after increases in the available transportation capacity. Purchases from Uzbekistan totaled 1.3 bcm in 2003, are expected to rise to 7 bcm in 2004 and may reach up to 10 bcm annually from 2005 to 2012.

Further developing transportation infrastructure to meet growing demand for gas and increase our flexibility in delivering gas to export and domestic markets. We expect demand for natural gas in our core export market—Europe—to grow and for our European export obligations to grow accordingly. In order to integrate our production sites into our pipeline network and to continue to meet our contractual export obligations, we are developing new pipelines, such as the Zapolyarnoye-Urengoi pipeline, the northern areas of the Tyumen region-Torzhok (SRTO-Torzhok) pipeline, Pochinki-Izobilnoye-North Stavropolskoye underground gas storage facility pipeline and the Yamal-Europe (Torzhok-Poland) pipeline.

The Zapolyarnoye-Urengoi pipeline connects the Zapolyarnoye field to our existing pipeline network. The SRTO-Torzhok pipeline will become part of an operating multi-line gas transportation system and enhance our ability to export natural gas through the Yamal-Europe pipeline and to customers in the northwestern regions of Russia. The natural gas pipeline from Pochinki to Izobilnoye and the North Stavropolskoye underground gas storage facility forms part of the Russia-Turkey natural gas pipeline system, and will enable us to deliver “clean” natural gas from the Nadym-Pur-Taz region through the Blue Stream pipeline. The Yamal-Europe project helps us to meet our contractual obligations to supply natural gas to Europe and to diversify export routes. Connecting the Yamal-Europe pipeline to the existing natural gas transportation network in Germany allows for the full integration of this pipeline into the European gas transportation network.

We have also announced plans to develop the North European pipeline, from northwest Russia (under the Baltic Sea) to the German shore and onwards through The Netherlands to the United Kingdom, with capacity of approximately 20 bcm per year. Market research and planning for this project is currently underway. We are also currently analyzing opportunities in Asian and other markets and the potential desirability of further investments in gas transportation infrastructure, including for liquified natural gas (“LNG”), to meet anticipated demand growth and market opportunities in China, Japan, the United States and elsewhere.

Enhancing our refining capabilities. Our long-term refining strategy is to enhance our competitive position in Russia, the FSU and Europe, in particular through our subsidiary Sibur, one of Russia’s leading petrochemicals companies. We plan to modernize the gas processing and refining facilities of our subsidiaries, including Sibur, in order to increase our production of refined products overall (and our refining throughput) as well as the depth of our refining, allowing us to produce higher margin products.

Enhancing profitability by capitalizing on the profitable and growing European export markets, while increasing cash generation from domestic and FSU sales. In 2003, net sales of natural gas to Europe represented 29.2% of our total gas sales volumes and 64.7% of our net gas sales revenues. We expect to continue to increase our export sales volumes under our export contracts, thus contributing to our profitability. In addition, we intend to continue our current efforts to improve the profitability of our domestic sales by lobbying the Government for price increases and by improving payment discipline from domestic and FSU customers.

Continuing to develop strategic partnerships, both in Russia and internationally. We have entered into various strategic partnerships, both domestically and abroad, and are continually seeking new opportunities to maximize the value of our assets through these relationships. We have entered into cooperation agreements with Rosneft, including agreements for the development of the significant Shtokmanovskoye and Prirazlomnoye fields and, in conjunction with Surgutneftegaz, for the development of gas and oil fields and an integrated natural gas supply system in eastern Siberia and the Republic of Sakha (Yakutia). We have also entered into a strategic partnership agreement with OAO LUKOIL (“LUKOIL”), which produces natural gas at fields in western Siberia that are located close to our major natural gas fields. The agreement provides, inter alia, for cooperation in oil and gas projects in Russia and other countries from 2002 to 2005. Under this agreement, we concluded a framework agreement in March 2003 according to which LUKOIL will sell us gas that it processes at its Nakhodkinskii field, an agreement in June 2003 on the development of hydrocarbon deposits in the Caspian Sea and a further agreement in October 2003 with respect to purchasing gas produced at the Nakhodkinskii field. We have established a joint venture, WINGAS GmbH (“WINGAS”), with BASF AG (“BASF”), that owns pipelines in Germany and allows us to access the German market further downstream than by merely delivering gas at the border. We anticipate entering into strategic agreements with other domestic and international energy companies in the future.

Building our research and development capabilities to ensure low-cost development, production and transportation of our gas to increasingly competitive markets. We continue to invest in research and development in a number of scientific and technical areas. In general, our research and development focuses on expanding our mineral resource base, developing hydrocarbon deposits in new regions (for example, the Ob-Taz Estuary, Arctic offshore fields and the Yamal Peninsula), maintaining the reliability of the UGSS, ensuring production in fields that are being developed, optimizing financial, investment and pricing policies and increasing ecological and industrial safety. We are focusing on several specific projects, including researching how to extract natural gas cost-effectively from the Yamal Peninsula fields and increasing the efficiency of gas transportation via our pipelines. We are also focusing on developing and implementing new technologies by which to deliver our gas, including LNG, which could provide access to U.S. and Asian markets.

Improving corporate governance and protecting shareholders' rights by introducing best-practice management techniques and increased levels of transparency. At our 2002 general meeting of shareholders, we approved a new corporate governance charter outlining procedures for the protection of the rights of our shareholders, including our major shareholder, the Russian Federation, as well as our minority shareholders. In addition, our Board of Directors adopted a resolution on September 27, 2002 whereby all transactions, whether with interested parties or not, involving, in particular, (i) interests or participations that Gazprom or its subsidiaries hold in other companies, (ii) loans or other borrowings including guarantees by Gazprom having a value of greater than 0.3% of Gazprom's balance sheet assets determined under Russian accounting principles and (iii) purchases or disposals by Gazprom of its fixed assets having a value greater than 0.3% of its balance sheet assets determined under Russian accounting principles, require prior approval by our Board of Directors. We are now in the process of adopting similar procedures at our subsidiaries. We have also launched several initiatives to measure more accurately and improve our operating and financial performance, including programs related to optimizing domestic sales (including increasing cash collection), increasing internal controls over budget planning and execution, deployment of investment capital and debt management and increasing control over our subsidiaries. Finally, we intend to continue our efforts with respect to increasing transparency through ongoing publication of interim and year-end IFRS financial information, improved levels of disclosure for public market financings and improved relations with our public shareholders. In general, we seek to instill in our managers a sense of personal responsibility for the success of our business.

History and Privatization

Prior to 1991, the Russian gas industry was regulated by the Ministry of the Gas Industry. State-owned concern "Gazprom," which was formed in 1991, was the successor to the Ministry of the Gas Industry. This state-owned concern formed the basis for our transformation into a joint stock company in accordance with Presidential Decree No. 1333 of November 5, 1992 "On the Transformation of the State Gas Concern Gazprom into Russian Joint Stock Company Gazprom" ("Decree No. 1333") and Resolution of the Council of Ministers of the Government of the Russian Federation No. 138 of February 17, 1993 "On the Establishment of Russian Joint Stock Concern Gazprom" ("Order No. 138"). Decree No. 1333 made us responsible for ensuring the efficient operation and development of the UGSS. Decree No. 1333 and the Presidential Decree of the Russian Federation No. 2116 of December 6, 1993 made us responsible for natural gas exports through Gazexport, our wholly-owned foreign trade subsidiary.

Decree No. 1333 charged us with the following principal tasks:

- ensuring a reliable supply of natural gas to customers in Russia and to foreign customers, and supplying gas abroad under inter-governmental and inter-state agreements;
- conducting a coordinated technical and investment policy for maintaining and further developing the UGSS;
- controlling the operation of the UGSS;
- financing and constructing natural gas pipelines and high pressure outlets to service areas of Russia where natural gas was previously unavailable; and
- providing access for any independent producer of natural gas to the UGSS in proportion to the amount of natural gas produced by such independent producer in Russia, subject to Government regulation of the natural gas price mechanism.

Our functions as owner of the UGSS and providing access to the UGSS are now regulated in accordance with Federal Law No. 69 FZ dated March 31, 1999 "On Gas Supply in the Russian Federation" (the "Gas Supply Law").

The Council of Ministers of the Russian Federation approved our original Charter in Order No. 138, and we were registered as an open joint stock company under the laws of the Russian Federation on February 25, 1993. In 1993 and 1994 the Government issued us with licenses pursuant to the Subsoil Resources Law of 1992, granting us rights to exploit hydrocarbon reserves.

Decree No. 1333 provided for the transfer to us of 100% of the share capital of enterprises comprising the UGSS, controlling equity stakes (not less than 51%) in a number of other entities that had been reorganized into joint stock companies, the interests of State Gas Concern "Gazprom" in Russian and foreign enterprises, and other assets of State Gas Concern "Gazprom," the privatization of which was not restricted. Decree No. 1333 also provided for all rights and obligations of State Gas Concern "Gazprom"

to inure to our benefit, including its rights to use underground deposits and natural resources, as well as its rights and obligations under contracts. Gas producing enterprises Yakutgazprom and Norilskgazprom, which had been part of State Gas Concern “Gazprom,” were reorganized into separate joint stock companies independent from us.

Decree No. 1333, Directive No. 58-rp of the President of the Russian Federation dated January 26, 1993, our privatization plan and certain other legislative acts issued by the President and the Government provided for:

- 15.0% of our shares to be sold by closed subscription to employees and the management of the enterprises comprising the reorganized UGSS;
- 33.9% of our shares to be sold to Russian individuals in return for privatization vouchers (of which 0.87% has not been sold and remains within federal ownership);
- 40.0% of our shares to be fixed for three years in federal ownership;
- 1.1% of our shares to be transferred to joint stock company “Rosgazifikatsiya” (a supplier of natural gas to end consumers); and
- 10.0% of our shares to be purchased by us before June 1, 1993 at nominal value in exchange for privatization vouchers and to be placed in the securities market within one year to finance the development of natural gas fields.

Presidential Decree of the Russian Federation No. 399 of March 20, 1996 extended by a further three years the original period during which 40% of our shares were to be retained in federal ownership. Presidential Decree of the Russian Federation No. 887 of July 25, 1998 reduced the percentage of our shares to be retained in federal ownership to 35%, in anticipation of the sale of 5% of our shares. The Government subsequently sold 2.5% of our shares to Ruhrgas (now E.ON Ruhrgas) through a privatization auction in December 1998. Although our privatization plan envisaged the sale of the other 2.5% in the second quarter of 1999, these shares were not sold and continue to be owned by the Government.

The Gas Supply Law states that at least 35% of the UGSS owner’s shares (i.e., Gazprom) must be retained in federal ownership for an indefinite period of time and may only be disposed of pursuant to federal law. These shares, together with the 0.87% of our shares not placed during the privatization program in 1993 and 1994 and the 2.5% of our shares not sold in the second quarter of 1999, comprise the 38.37% of our shares currently directly held by the state.

Corporate Structure

We operate through a number of direct and indirect wholly- or majority-owned subsidiaries. In addition, we hold direct and indirect equity interests of between 21% and 50% in a number of other entities. All of our active consolidated subsidiaries have been re-registered in the Unified State Register of Legal Persons. Our subsidiaries include natural gas production subsidiaries; natural gas transportation subsidiaries; marketing subsidiaries; and subsidiaries responsible for a number of other activities, including technical supervision of our pipeline systems, oil and gas well drilling, research and development, data processing, banking and procurement.

We do not separately identify segments within our Group as we operate as an integrated business. However, information about our business can be analyzed based on five segments: (i) exploration and production (referred to in the notes to our financial statements as “production”); (ii) transportation; (iii) refining; (iv) marketing (referred to in the notes to our financial statements as “distribution”); and (v) other (which includes banking activities).

Head office. Our head office, located in Moscow, exercises a substantial degree of managerial and financial control over the operations of our subsidiaries. Head office functions include strategy, planning, external financing, financial reporting, allocation of financial resources and supervision of principal areas of operations, such as construction, drilling, production, transportation, some natural gas sales in Russia, sales in the FSU and equipment procurement.

The dispatch management center, based at our head office, continuously monitors, controls and manages our natural gas transportation system throughout Russia. We also process operational information, including data on produced and transported natural gas volumes, at our head office. Our head office is also responsible for internal financial reporting for the preparation of consolidated accounts and for monitoring our cash receipts and cash requirements.

Exploration and Production. We operate our production segment through our production subsidiaries, which develop and operate our hydrocarbon fields. Well drilling operations are carried out by our subsidiaries OOO Burgaz, OAO Podzemburgaz, OOO Gazflot, the drilling departments of some of our subsidiaries and by third-party contractors. In addition, we participate in a number of exploration and production projects and joint ventures with Russian and foreign partners. See “—Reserves and Production—Projects and Alliances in Reserves and Production.”

Transportation. We have a total of 19 wholly-owned natural gas transportation subsidiaries, of which six also produce and/or process natural gas. Our natural gas transportation subsidiaries are responsible for the transportation of natural gas along trunk pipelines and for the delivery of natural gas within their respective regions. As discussed more fully below, beginning in the late 1990s, we began acquiring interests in gas distribution companies, which own and operate medium- and low-pressure pipelines that transport gas to end consumers. In addition, we participate in a number of natural gas transportation joint ventures involving foreign partners. See “—Transportation—International Projects and Alliances for Transportation.”

Refining. We operate our refining segment principally through our subsidiaries, some of which are also engaged in natural gas production and transportation activities and engage in refining activities principally to remove corrosive substances from the natural gas they produce and to prepare it for transportation, as well as through Sibur. In January 2001 we acquired 50.7% of the voting shares of Sibur, one of Russia’s leading petrochemicals companies. In April 2003 we established control over a number of petrochemicals companies, some of which held interests in Sibur, increasing our interest in Sibur to 75.7%. We acquired an additional 2.4% interest in Sibur in September 2003 and a further 14.2% in April 2004. We are currently in the process of increasing our interest in Sibur to 99.9%. See “—Refining—Sibur.”

Marketing. We export our products through our wholly-owned trading subsidiary, Gazexport. We sell our products domestically, including natural gas through our wholly-owned subsidiary Mezhregiongaz and the more than 50 regional trade houses in Russia, 47 of which we controlled as of March 31, 2004. In addition, we participate in a number of marketing joint ventures involving foreign partners. See “—Marketing—International Projects and Alliances in Marketing.”

Other. We are engaged in various non-core activities that support our business. These activities include technical supervision of the pipeline system, construction activities supporting the operation of the UGSS, research and development and non-core production activities such as the production of construction and telecommunications equipment. We also own Gazprombank, Russia’s third largest bank as measured by total assets and capital, which meets most of our domestic banking needs (other than borrowings); Gazfund, the largest private pension fund in Russia, which we use to provide pension services to our employees; and Sogaz, an insurance company that provides us with our insurance coverage. We also own various other businesses that are not related to our core operations. These include Gazprom-Media, a holding company that owns various media production and distribution channels, other media companies and various other agricultural, civil, construction, medical care, insurance and telecommunications activities.

Reserves and Production

We are the world’s largest producer of natural gas, and of hydrocarbons generally. Our major reserves and production areas are western Siberia, southern Russia, the South Ural region and northern European Russia. As of December 31, 2003, we had Russian reserves system ABC1 reserves of 28.0 tcm (989.1 tcf) of natural gas, 1,279.8 million tons (9.4 bbls) of gas condensate and 569.1 million tons (4.2 bbls) of crude oil, for a total of 178,390.2 mmboe. As of March 31, 2004, we had Russian reserves system combined ABC1 reserves of 27.9 tcm (985.3 tcf) of natural gas, 1,278.2 million tons (9.4 bbls) of gas condensate and 569.9 million tons (4.2 bbls) of crude oil, for a total of 177,542.6 mmboe.

Based on an evaluation of 19 of our fields (21 deposits) conducted by DeGolyer and MacNaughton under SPE International Standards, we had 16.6 tcm of proved natural gas reserves and 1.8 tcm of probable natural gas reserves as of December 31, 2003. These 19 fields (21 deposits) also contained proved reserves of 423.8 million tons (3,106.7 mmbbls) of gas condensate and 8.4 million tons (61.9 mmbbls) of crude oil and probable reserves of 154.1 million tons (1,129.5 mmbbls) of gas condensate and 98.8 million tons (724.5 mmbbls) of crude oil as of December 31, 2003. Gas condensate reserve data included in this Offering Circular include other gas liquid reserves. See Appendix A.

The 19 fields (21 deposits) evaluated by DeGolyer and MacNaughton accounted for approximately 90% of our combined ABC1 natural gas reserves, approximately 91% of our combined ABC1 gas

condensate reserves and approximately 64% of our combined ABC1 crude oil reserves as of December 31, 2002. We believe that the fields evaluated by DeGolyer and MacNaughton are likely to contain most of our reserves that would be deemed proved or probable upon a full evaluation of our upstream properties according to SPE International Standards.

As of March 31, 2004, our licenses held by Gazprom and our wholly-owned subsidiaries included 36 for exploration and assessment with terms of up to five years (without development rights), 16 combined hydrocarbon exploration, assessment and production licenses with initial terms of 25 years and with remaining terms of mostly between 18 and 23 years, and 74 exploration and production licenses with initial terms of 20 to 25 years and with remaining terms of mostly between 11 and 23 years. We are in substantial compliance with all of our material subsoil licenses.

In the year ended December 31, 2003, we produced 540.2 bcm (19,078 bcf) of natural gas, 10.2 million tons (74.9 mmbls) of gas condensate and 802,800 tons (5.9 mmbls) of crude oil, for a total of a 3,259.7 mmboe, as compared to 521.9 bcm (18,341 bcf) of natural gas, 9.9 million tons (72.6 mmbls) of gas condensate and 706,400 tons (5.2 mmbls) of crude oil, for a total of 3,149.6 mmboe, in the year ended December 31, 2002. In the three months ended March 31, 2004, we produced 144.9 bcm (5,117 bcf) of natural gas, 2,783.5 million tons (20.4 mmbls) of gas condensate and 230,800 tons (1.7 mmbls) of crude oil, for a total of 874.7 mmboe, as compared to 144.1 bcm (5,089 bcf) of natural gas, 2,583.7 million tons (18.9 mmbls) of gas condensate and 197,200 tons (1.4 mmbls) of crude oil, for a total of 868.5 mmboe, in the three months ended March 31, 2003. We plan to achieve annual natural gas production of 550-560 bcm by 2010, increasing to 580-590 bcm by 2020 and 610-630 bcm by 2030. We have also entered into a number of strategic alliances and joint ventures with major western and Russian oil and gas companies to develop fields in the Barents Sea, the Caspian Sea, western Siberia, China and the Persian Gulf (South Pars).

The following table sets forth certain data for our production segment for the periods indicated:

	As of or for the year ended December 31,		
	2003	2002	2001
Total natural gas production (bcm)	540.2	521.9	512.0
Depreciation (million RR)	30,486	28,436	30,023
Capital Expenditure (million RR)	102,778	78,248	70,898
Total Assets (million RR)	657,779	600,171	536,126

Reserves

We estimate our hydrocarbon reserves in accordance with the Russian reserves system. We have also had the reserves in most of our major fields evaluated since 1997 according to SPE International Standards by DeGolyer and MacNaughton, an independent petroleum engineering consulting firm, and this has yielded estimates of our proved and probable reserves.

The Russian reserves system differs significantly from SPE International Standards, in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves, as described more fully below.

Russian Reserves System

The estimation of reserves of natural gas, gas condensate and crude oil can be broken down into two components: (i) geological reserves, or the quantities of natural gas, gas condensate and crude oil contained in the subsoil and (ii) extractable reserves, or the portion of geological reserves whose extraction from the subsoil as of the date the reserves are calculated is economically efficient given market conditions and rational use of modern extraction equipment and technologies and taking into account compliance with the requirements of subsoil and environmental protection.

The Russian reserves system is based solely on an analysis of geological attributes. Explored reserves are represented by categories A, B, and C1; preliminary estimated reserves are represented by category C2; potential resources are represented by category C3; and forecasted resources are represented by the categories D1 and D2. Natural gas reserves in categories A, B and C1 are considered to be fully extractable. For reserves of oil and gas condensate, a predicted coefficient of extraction is calculated based on geological and technical factors. We have included in this Offering Circular only information about our explored reserves, or reserves in categories A, B and C1.

Category A reserves are calculated on the part of a deposit drilled in accordance with an approved development project for the oil or natural gas field. They represent reserves that have been analyzed in

sufficient detail to define comprehensively the type, shape and size of the deposit; the level of hydrocarbon saturation; the reservoir type; the nature of changes in the reservoir characteristics; the hydrocarbon saturation of the productive strata of the deposit; the content and characteristics of the hydrocarbons; and the major features of the deposit that determine the conditions of its development (mode of operations, well productivity, strata pressure, natural gas, gas condensate and oil balance, hydro- and piezo-conductivity and other features).

Category B represents the reserves of a deposit (or portion thereof), the oil or gas content of which has been determined on the basis of commercial flows of oil or gas obtained in wells at various hypsometric depths. The type, shape and size of the deposit; the effective oil and gas saturation depth and type of the reservoir; the nature of changes in the reservoir characteristics; the oil and gas saturation of the productive strata of the deposit; the composition and characteristics of oil, gas and gas condensate under in-situ and standard conditions and other parameters; and the major features of the deposit that determine the conditions of its development have been studied in sufficient detail to draw up a project to develop the deposit.

Category B reserves are computed for a deposit (or a portion thereof) that has been drilled in accordance with either a trial industrial development project in the case of a natural gas field or an approved technological development scheme in the case of an oil field.

Category C1 represents the reserves of a deposit (or of a portion thereof), the oil or gas content of which has been determined on the basis of commercial flows of oil or gas obtained in wells (with some of the wells having been probed by a formation tester) and positive results of geological and geophysical exploration of non-probed wells.

The type, shape and size of the deposit and the formation structure of the oil- and gas-bearing reservoirs have been determined from the results of drilling exploration and production wells and by those geological and geophysical exploration techniques that have been field-tested for the applicable area. The lithological content, reservoir type and characteristics, oil and gas saturation, oil displacement ratio and effective oil and gas saturation depth of the productive strata have been studied based on drill cores and geological and geophysical exploration techniques. The composition and characteristics of oil, gas and gas condensate under in-situ and standard conditions have been studied on the basis of well testing data. In the case of an oil and gas deposit, the commercial potential of its oil-bearing fringe has been determined. Well productivity, hydro- and piezo-conductivity of the stratum, stratum pressures and oil, gas and gas condensate temperatures and yields have been studied on the basis of well testing and well exploration results. The hydro-geological and geocryological conditions have been determined on the basis of well drilling results and comparisons with neighboring explored fields.

Category C1 reserves are computed on the basis of results of geological exploration work and production drilling and must have been studied in sufficient detail to yield data from which to draw up either a trial industrial development project in the case of a natural gas field or a technological development scheme in the case of an oil field.

For a description of C2, C3, D1 and D2 reserves and resources, see “Overview of the Russian Gas Industry and its Regulation—Classification of Reserves.”

SPE International Standards

While the Russian reserves system focuses on the actual physical presence of hydrocarbons in geological formations, and reserves are estimated based on the probability of such physical presence, SPE International Standards take into account not only the probability that hydrocarbons are physically present in a given geological formation but also the economic viability of recovering the reserves (including such factors as exploration and drilling costs, ongoing production costs, transportation costs, taxes, prevailing prices for the products, and other factors that influence the economic viability of a given deposit).

Under SPE International Standards, reserves are classified as “proved,” “probable” and “possible,” based on both geological and commercial factors. We have included in this Offering Circular information about our proved and probable reserves based on the evaluations of our fields by DeGolyer and MacNaughton.

Proved reserves include reserves that are confirmed with a high degree of certainty through an analysis of the development history and/or volume method analysis of the relevant geological and engineering data. Proved reserves are those that, based on the available evidence and taking into account technical and economic factors, have a better than 90% chance of being produced.

Probable reserves are those reserves in which hydrocarbons have been located within the geological structure with a lesser degree of certainty because fewer wells have been drilled and/or certain operational tests have not been conducted. Probable reserves are those reserves that, on the available evidence and taking into account technical and economic factors, have a better than 50% chance of being produced.

An evaluation of proved and probable natural gas reserves naturally involves multiple uncertainties. The accuracy of any reserves evaluation depends on the quality of available information and engineering and geological interpretation. Based on the results of drilling, testing and production after the audit date, reserves may be significantly restated upwards or downwards. Changes in the price of natural gas, gas condensate or oil may also affect our proved and probable reserves estimates, as well as estimates of our future net revenues and net present worth, because the reserves are evaluated, and the future net revenues and net present worth are estimated, based on prices and costs as of the audit date.

Differences between SPE International Standards and SEC Standards

DeGolyer and MacNaughton has conducted evaluations of our fields using SPE International Standards, which differ in certain material respects from SEC Standards. The principal differences include the following:

Certainty of Existence. Under SPE International Standards, reserves in undeveloped drilling sites that are located more than one well location from a commercial producing well may be classified as proved reserves if there is “reasonable certainty” that they exist. Under SEC Standards, it must be “demonstrated with certainty” that reserves exist before they may be classified as proved reserves. In their evaluations of our proved reserves, DeGolyer and MacNaughton has applied the stricter SEC Standards with respect to certainty of existence.

Duration of License. Under SPE International Standards, proved reserves are projected to the economic production life of the evaluated fields. Under SEC Standards, oil and gas deposits may not be classified as proved reserves if they will be recovered after the expiration of a current license period unless the license holder has the right to renew the license and there is a demonstrated history of license renewal. The Subsoil Resources Law provides that a license holder may request an extension of an existing license where extractable reserves remain upon the expiration of the primary term of the license, provided that the license holder is in material compliance with the license. In addition, we prepare and submit for government approval development plans for our fields based on the economic life of the field, even where this life exceeds the primary term of the associated license. We are currently in material compliance with our licenses, and intend to request to extend them to the full economic lives of the associated fields upon the expiration of their primary terms. We have also recently extended the terms of five of our production licenses to the end of the economic lives of the fields. While we believe that our licenses will be extended on our request as they expire, the absence of an absolute legal right to extension and a significant demonstrated history of extension makes it uncertain whether extractable reserves we plan to recover only after the expiration of a current license period may be considered proved reserves under SEC Standards. We understand that the SEC staff has not provided definitive guidance on whether in these circumstances such extractable reserves could be considered proved under SEC Standards.

Accordingly, information relating to our estimated proved natural gas, gas condensate and oil reserves included in this Offering Circular is not necessarily indicative of information that would be reported under SEC Standards. In addition, SEC Standards do not permit the presentation of reserves other than proved reserves.

These differences could potentially cause the amount of estimated proved natural gas, gas condensate and oil reserves reported by us in future periods under SEC Standards to be lower than would otherwise be reported under SPE International Standards. A relative decrease in the amount of estimated proved developed natural gas, gas condensate and oil reserves reported by us could, if material, affect the amount of depreciation and depletion expense, impairment charges or certain other financial information derived from or relating thereto reported by us in our consolidated financial statements in future periods.

Our Reserves

We estimate that we had combined ABC1 reserves of 28.0 tcm of natural gas, 1,279.8 million tons (9.4 bbls) of gas condensate and 569.1 million tons (4.2 bbls) of crude oil, for a total of 178,390.2 mmboe as of December 31, 2003, and combined ABC1 reserves of 27.9 tcm of natural gas, 1,278.2 million tons (9.4 bbls) of gas condensate and 569.9 million tons (4.2 bbls) of crude oil, for a total of 177,542.6 mmboe as of March 31, 2004. Our wholly-owned production subsidiaries held mineral resource licenses at December 31, 2003 for 26.0 tcm of combined ABC1 natural gas reserves, while associated companies held licenses

for another 4.1 tcm of combined ABC1 natural gas reserves (of which 2.0 tcm was attributable to us in proportion to our actual shareholding), including 1.1 tcm of natural gas reserves owned by enterprises in which we owned more than 50% (with our proportionate share totaling 0.7 tcm) and 3.0 tcm owned by enterprises in which we own 50% or less (with our proportionate share totaling 1.3 tcm). As of March 31, 2004, our wholly-owned production subsidiaries held combined mineral resource licenses for 25.8 tcm of ABC1 natural gas reserves, while associated companies held licenses for another 4.0 tcm of combined ABC1 natural gas reserves (of which 2.0 tcm was attributable to us in proportion to our actual shareholding), including 1.1 tcm of natural gas reserves owned by enterprises in which we owned more than 50% (with our proportionate share totalling 0.7 tcm) and 3.0 tcm owned by enterprises in which we own 50% or less (with our proportionate share totalling 1.3 tcm). Our total combined ABC1 natural gas reserves represent approximately 60% of the total combined ABC1 natural gas reserves in Russia. Most of our reserves are concentrated in the very large Yamburgskoye, Bovananenskoye, Urengoiyskoye, Zapolyarnoye, Astrakhanskoye, Kharasaveyskoye, Medvezhye and Orenburgskoye fields, each with combined ABC1 natural gas reserves of at least 500 bcm. Approximately half of our combined ABC1 natural gas reserves are in Cenomanian deposits, which are characterized by low bedding depth, high delivery rates of wells and dry natural gas.

The following table shows our total combined ABC1 natural gas, gas condensate and crude oil reserves as of the dates indicated. All reserves amounts in the table below are given in proportion to our actual shareholding in non-wholly-owned subsidiaries, equity basis companies and joint ventures.

	<u>As of March 31,</u>	<u>As of December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
		Combined ABC1		
Total reserves				
Natural Gas (bcm).....	27,863	28,006	28,159	28,147
Gas Condensate (million tons)	1,278	1,280	1,283	1,291
(mmbbls).....	9,368	9,381	9,407	9,460
Crude Oil (million tons).....	570	569	562	571
(mmbbls)	4,177	4,172	4,122	4,184

The following table shows our combined ABC1 and proved and probable natural gas, gas condensate and crude oil reserves in the areas evaluated by DeGolyer and MacNaughton as of December 31, 2003, 2002 and 2001. As of December 31, 2003, approximately 97% of the proved and probable reserves evaluated in accordance with SPE International Standards were located in western Siberia, and the remaining 3% were located in the Orenburg and Astrakhan Regions.

The correlation between A, B and C1 natural gas reserves and proved and probable natural gas reserves may differ in the fields that have not yet been evaluated by DeGolyer and MacNaughton. Moreover, the correlation may vary at different times for the same fields.

All reserves amounts shown in the table below are given in proportion to our actual shareholding in non-wholly-owned subsidiaries, equity basis companies and joint ventures unless otherwise noted.

	As of December 31,											
	2003				2002				2001			
	Russian Reserves	SPE International Standards			Russian Reserves	SPE International Standards			Russian Reserves	SPE International Standards		
	Combined ABC1	Proved ⁽³⁾⁽⁴⁾	Probable ⁽³⁾⁽⁴⁾	Combined Proved and Probable ⁽³⁾⁽⁴⁾⁽⁵⁾	Combined ABC1 ⁽³⁾⁽⁴⁾	Proved ⁽³⁾⁽⁴⁾	Probable ⁽³⁾⁽⁴⁾	Combined Proved and Probable ⁽³⁾⁽⁴⁾⁽⁵⁾	Combined ABC1	Proved	Probable	Combined Proved and Probable ⁽⁵⁾
Reserves in our fields evaluated to SPE International Standards ⁽¹⁾⁽²⁾												
Natural Gas (tcm).	25.3	16.6	1.8	18.5	25.2	16.8	1.9	18.7	23.8	16.2	1.5	17.7
Gas Condensate (million tons)	1,161.0	423.8	154.1	577.9	1,176.5	374.9	140.9	515.8	902.1	289.2	77.9	367.1
(mmbbls)	8,510.1	3,106.7 ⁽⁶⁾	1,129.5 ⁽⁶⁾	4,236.2 ⁽⁶⁾	8,623.7	2,748.0 ⁽⁶⁾	1,032.8 ⁽⁶⁾	3,780.8 ⁽⁶⁾	6,612.3	2,119.8 ⁽⁶⁾	571.3 ⁽⁶⁾	2,691.3 ⁽⁶⁾
Crude oil (million tons)	361.9	8.4	98.8	107.3	362.2	7.7	98.8	106.5	362.8	8.1	98.8	106.9
(mmbbls)	2,652.7	61.9 ⁽⁶⁾	724.5 ⁽⁶⁾	786.4 ⁽⁶⁾	2,654.9	56.2 ⁽⁶⁾	724.1 ⁽⁶⁾	780.3 ⁽⁶⁾	2,659.3	59.7 ⁽⁶⁾	724.1 ⁽⁶⁾	783.7 ⁽⁶⁾

Notes:

- (1) Data presented include only those elements of the fields included by DeGolyer and MacNaughton in their evaluations of 19 fields (21 deposits), 19 fields (21 deposits) and 17 fields (18 deposits) as of December 31, 2003, 2002 and 2001, respectively.
- (2) Data presented here include 90% of the reserves of the West Tarkosalinsk field. As of the dates of the evaluations by DeGolyer and MacNaughton, we had entered into an agreement with Purneftegazgeologia, the holder of the production license for this field, pursuant to which we received, 90% of the production from the field in exchange for developing it.
- (3) Data presented here include 100% of the reserves of the Gubkinskoye field, though we only hold a 51% proportionate interest through our subsidiary Purgaz. When we estimate our combined ABC1 natural gas reserves, we include only 51% of the reserves of the Gubkinskoye field as our reserves.
- (4) Data presented here include 100% of the reserves of the Yuzhno-Russkoye field as of December 31, 2003 and 49% of the reserves of this field as of December 31, 2002. The license for this field is held by Severneftegazprom. In February 2003, we increased our interest in Severneftegazprom to 100%. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Acquisitions and Dispositions—Our asset reacquisition program."
- (5) Totals may not add due to rounding.
- (6) Amounts differ from those provided in the DeGolyer and MacNaughton letter attached as Appendix A because in this Offering Circular we use a conversion rate from metric tons to barrels of 1 ton = 7.33 barrels. Amounts in barrels provided in the DeGolyer and MacNaughton letter are calculated based on the specific gravities of each field.

The following table sets out our combined ABC1 and proved and probable natural gas reserves in our major fields as of December 31, 2003, 2002 and 2001. All of our major fields, with the exception of the Shtokmanovskoye field, were included in the fields evaluated by DeGolyer and MacNaughton.

The correlation between A, B and C1 natural gas reserves and proved and probable reserves may differ in the fields that have not yet been evaluated by DeGolyer and MacNaughton. Moreover, the correlation may vary at different times for the same fields.

All reserves shown in the table below and evaluated by DeGolyer and MacNaughton are held by wholly-owned subsidiaries.

	As of December 31,											
	2003				2002				2001			
	Russian Reserves	SPE International Standards			Russian Reserves	SPE International Standards			Russian Reserves	SPE International Standards		
	Combined ABC1	Proved	Probable	Combined Proved and Probable ⁽⁴⁾	Combined ABC1	Proved	Probable	Combined Proved and Probable ⁽⁴⁾ (bcm)	Combined ABC1	Proved	Probable	Combined Proved and Probable ⁽⁴⁾
Reserves in our fields evaluated to SPE International Standards⁽¹⁾												
Western Siberia (Urals federal district)												
Urengoiyskoye ⁽²⁾	5,026.4	3,092.7	419.4	3,512.1	4,942.4	3,216.4	456.0	3,672.4	4,116.5	2,842.7	100.2	2,942.9
Yamburgskoye	4,133.3	2,789.7	305.1	3,094.8	4,288.1	2,936.2	305.1	3,241.3	4,184.5	3,084.0	305.0	3,389.0
Zapolyarnoye	3,357.7	2,710.5	159.6	2,870.0	3,425.0	2,778.3	159.6	2,937.9	3,462.7	2,814.7	159.6	2,974.3
Medvezhye	478.5	309.7	22.3	332.1	506.8	338.0	22.3	360.3	537.6	368.8	22.3	391.2
Komsomolskoye	468.0	421.2	8.0	429.2	499.9	449.8	8.0	457.8	531.0	480.9	8.0	488.9
Yamal Peninsula (Urals federal district)												
Bovanenkovskoye	4,186.3	3,270.1	291.4	3,561.5	4,186.3	3,270.1	291.4	3,561.5	531.0	3,270.1	291.4	3,561.5
Kharasaveiskoye	1,254.9	1,081.7	302.7	1,384.4	1,254.9	1,081.7	302.7	1,384.4	4,186.3	1,081.7	302.7	1,384.0
Barents Sea (Northwestern federal district)												
Shtokmanovskoye	1,268.2 ⁽³⁾	not evaluated	not evaluated	not evaluated	1,572.6 ⁽³⁾	not evaluated	not evaluated	not evaluated	2,536.4 ⁽³⁾	not evaluated	not evaluated	not evaluated
Southern Russia (Southern federal district)												
Astrakhanskoye	2,519.7	190.3	42.6	232.9	2,531.1	197.9	42.8	240.7	2,542.9	199.2	41.8	241.0
South Ural Region (Privolzhski federal district)												
Orenburgskoye	695.4	357.5	17.5	375.0	715.1	377.6	17.5	395.1	736.3	398.8	17.5	416.4
Total for named fields	23,388.4	14,223.4	1,568.6	15,792.0	23,908.6	14,121.1	1,249.6	15,370.7	21,552.7	14,172.2	1,226.1	15,398.3

Notes:

- (1) Data presented include only those elements of the fields included by DeGolyer and MacNaughton in their evaluations as of December 31, 2003, 2002 and 2001, respectively.
- (2) Data presented include natural gas extractable from the crude oil portion, and as of December 31, 2003 and 2002, the Achimov deposit of the Urengoiyskoye field. The Achimov deposit was not included in the evaluations by DeGolyer and MacNaughton prior to 2002.
- (3) As a result of our participation with Rosneft and other parties in a joint activity for the development of the Shtokmanovskoye and Prirazlomnoye fields, we included in our combined ABC1 reserves 50%, 62% and 100% of the reserves of these fields as of December 31, 2003, 2002 and 2001, respectively. See “—Projects and Alliances in Reserves and Production—Shtokmanovskoye and Prirazlomnoye fields.”
- (4) Totals may not add due to rounding.

The following table sets out our total combined ABC1 natural gas, gas condensate and crude oil reserves as of the dates indicated. All reserves amounts are given in proportion to our actual shareholding in non-wholly-owned subsidiaries, equity basis companies and joint ventures, unless otherwise noted.

	As of March 31, 2004 ⁽¹⁾	As of December 31,		
	Combined ABC1	2003 ⁽¹⁾ Combined ABC1	2002 ⁽¹⁾ Combined ABC1	2001 ⁽¹⁾ Combined ABC1
Natural gas				
Aggregate reserves		(bcm)		
Reserves held through wholly-owned subsidiaries	25,840	25,978	25,873	26,051
Reserves held through majority-owned subsidiaries	723	728	1,919	1,886
Reserves held through other companies in which Gazprom has an equity stake	1,300	1,300	368	211
Total for Gazprom ⁽²⁾	27,863	28,006	28,159	28,148
Reserves by region				
Western Siberia (Urals federal district)	22,690	22,824	22,992	22,983
Northern European Russia (Northwestern federal district)	1,478	1,478	1,479	1,496
Southern Russia (Southern federal district)	2,622	2,625	2,639	2,654
South Ural Region (Privolzhski federal district)	839	844	913	929
Southwestern Siberia (Siberian federal district)	234	235	136	85
Total for Gazprom ⁽²⁾	27,863	28,006	28,159	28,148
Gas Condensate				
Aggregate reserves		(million tons)		
Reserves held through wholly-owned subsidiaries	1,238.3	1,239.9	1,248.3	1,240.2
Reserves held through majority-owned subsidiaries	27.6	27.6	33.4	42.7
Reserves held through other companies in which Gazprom has an equity stake	12.4	12.3	1.7	7.2
Total for Gazprom ⁽²⁾	1,278.2	1,279.8	1,283.4	1,290.1
		(mmbbls)		
Reserves held through wholly-owned subsidiaries	9,077	9,088	9,150	9,091
Reserves held through majority-owned subsidiaries	202	202	245	313
Reserves held through other companies in which Gazprom has an equity stake	91	90	12	53
Total for Gazprom ⁽²⁾	9,369	9,381	9,407	9,456
Reserves by region				
		(million tons)		
Western Siberia (Urals federal district)	763.0	763.4	768.0	770.3
Northern European Russia (Northwestern federal district)	38.5	38.4	38.5	45.3
Southern Russia (Southern federal district)	397.0	398.0	401.6	405.4
South Ural Region (Privolzhski federal district)	59.0	59.3	59.6	59.9
Southwestern Siberia (Siberian federal district)	20.7	20.7	15.6	9.7
Total for Gazprom ⁽²⁾	1,278.2	1,279.8	1,283.4	1,290.6

	As of March 31, 2004 ⁽¹⁾	As of December 31,		
	Combined ABC1	2003 ⁽¹⁾ Combined ABC1	2002 ⁽¹⁾ Combined ABC1	2001 ⁽¹⁾ Combined ABC1
		(mmbbls)		
Western Siberia (Urals federal district)	5,593	5,596	5,629	5,646
Northern European Russia (Northwestern federal district)	282	281	282	332
Southern Russia (Southern federal district)	2,910	2,917	2,944	2,972
South Ural Region (Privolzhski federal district) . .	432	435	437	439
Southwestern Siberia (Siberian federal district) . .	152	152	114	71
Total for Gazprom ⁽²⁾	9,369	9,381	9,407	9,460

Crude Oil

Aggregate reserves

		(million tons)		
Reserves held through wholly-owned subsidiaries	492.8	491.9	481.3	482.8
Reserves held through majority-owned subsidiaries	17.0	17.1	41.4	43.7
Reserves held through other companies in which Gazprom has an equity stake	60.1	60.1	39.6	44.3
Total for Gazprom ⁽²⁾	569.9	569.1	562.3	570.8
		(mmbbls)		
Reserves held through wholly-owned subsidiaries	3,612	3,606	3,528	3,539
Reserves held through majority-owned subsidiaries	125	125	303	320
Reserves held through other companies in which Gazprom has an equity stake	441	441	290	325
Total for Gazprom ⁽²⁾	4,177	4,172	4,122	4,184

Reserves by region

		(million tons)		
Western Siberia (Urals federal district)	466.7	466.4	461.0	473.9
Northern European Russia (Northwestern federal district)	31.9	31.3	31.8	32.1
Southern Russia (Southern federal district)	3.2	3.3	3.1	0.7
South Ural Region (Privolzhski federal district) . .	59.9	59.9	57.8	58.8
Southwestern Siberia (Siberian federal district) . .	8.2	8.2	8.6	5.3
Total for Gazprom ⁽²⁾	569.9	569.1	562.3	570.8
		(mmbbls)		
Western Siberia (Urals federal district)	3,421	3,419	3,379	3,474
Northern European Russia (Northwestern federal district)	234	229	233	235
Southern Russia (Southern federal district)	23	24	23	5
South Ural Region (Privolzhski federal district) . .	439	439	424	431
Southwestern Siberia (Siberian federal district) . .	60	60	63	39
Total for Gazprom ⁽²⁾	4,177	4,172	4,122	4,184

Notes:

- (1) As a result of our participation with Rosneft and other parties in a joint activity for the development of the Shtokmanovskoye and Prirazlomnoye fields, we included in our combined ABC1 reserves 50%, 50% 62% and 100% of the reserves of these fields as of March 31, 2004, December 31, 2003, December 31, 2002 and December 31, 2001, respectively. See “—Regional Development Priorities—Shtokmanovskoye and Prirazlomnoye fields.”
- (2) Totals may not add due to rounding.

The following table sets out by major field our combined ABC1 natural gas reserves as of the dates indicated. All reserves amounts are given in proportion to our actual shareholding in non-wholly-owned subsidiaries, equity basis companies and joint ventures, unless otherwise noted.

	As of March 31,	As of December 31,		
	2004	2003	2002	2001
Natural Gas Fields	Combined ABC1			
Western Siberia (Urals federal district)				
		(bcm)		
Urengoiyskoye	5,333.1	5,372.4	5,514.6	5,599.4
Yamburgskoye	4,093.8	4,134.7	4,288.1	4,184.5
Zapolyarnoye	3,397.9	3,419.7	3,487.0	3,524.2
Medvezhye	541.5	549.0	577.3	608.1
Komsomolskoye	459.7	468.0	499.9	531.0
Yamal Peninsula (Urals federal district)				
Bovanenkovskoye	4,374.9	4,374.9	4,374.9	4,375.0
Kharasaveiskoye	1,258.9	1,258.9	1,258.9	1,259.0
Barents Sea (Northwestern federal district)				
Shtokmanovskoye ⁽¹⁾	1,268.2	1,268.2	1,572.6	2,536.4
Southern Russia (Southern federal district)				
Astrakhanskoye	2,517.0	2,519.7	2,531.1	2,542.9
South Ural Region (Privolzhski federal district)				
Orenburgskoye	800.9	805.6	825.7	847.1
Total for named fields	24,016.7	24,171.1	24,930.1	24,739.4

Note:

- (1) As a result of our participation in a joint activity with Rosneft and other parties for the development of the Shtokmanovskoye field, we included in our combined ABC1 reserves 50%, 50%, 62% and 100% of the reserves of this field as of March 31, 2004, December 31, 2003, December 31, 2002 and December 31, 2001, respectively. See “—Regional Development Priorities—Shtokmanovskoye and Prirazlomnoye fields.”

In the period from December 31, 2002 through December 31, 2003, our combined ABC1 natural gas reserves, excluding the effects of the change in our interest in the Shtokmanovskoye field, increased by approximately 162 bcm.

Licenses

As of March 31, 2004, our principal licenses held by Gazprom and our wholly-owned subsidiaries included:

- 36 exploration and assessment licenses with terms of up to five years (without development rights);
- 16 combined hydrocarbon exploration, assessment and production licenses with initial terms of 25 years, and with remaining terms of mostly between 18 and 23 years; and
- 74 production licenses with initial terms of 20 to 25 years, and with remaining terms of mostly between 11 and 23 years.

We also hold other licenses through our non-wholly-owned subsidiaries.

The following table sets out our holdings of these licenses as of March 31, 2004.

	Type of License ⁽¹⁾			
	Exploration and Assessment	Exploration, Assessment and Production	Production	Total
Gazprom	6	2	0	8
Astrakhangazprom	0	1	1	2
Kaspiygazprom	0	7	0	7
Kavkaztransgaz	4	0	13	17
Kubangazprom	0	3	35	38
Nadymgazprom	6	0	6	12
Noyabrskgazdobysha	1	0	4	5
Orenburggazprom	9	1	1	11
Severgazprom	7	0	4	11
Severneftegazprom	0	0	1	1
Surgutgazprom	0	1	1	2
Tyumentransgaz	0	0	3	3
Uraltransgaz	1	0	0	1
Urengogazprom	2	0	3	5
Yamburggazdobysha	0	1	2	3
Principal Subsoil Users	36	16	74	126

Note:

(1) Licenses are categorized by type in accordance with the official indexing established at the time the license is issued. In practice, while a license may be officially indexed as a production license, it may also authorize exploration and assessment activities.

None of the licenses for our major fields expires prior to 2012. Ten production licenses held by Kubangazprom, accounting for combined ABC1 natural gas reserves of approximately 3 bcm, expire between 2005 and 2011. These licenses may be extended upon their scheduled expiration, as described more fully below. We have recently extended the terms of five production licenses held by Kubangazprom to the end of the economic lives of the fields.

In accordance with federal legislation, licenses are issued by the federal subsoil management authority jointly with the authority of the relevant constituent entity of the Russian Federation. Most of our hydrocarbon exploration, assessment and production licenses were granted in 1993 through 1996 in accordance with the Subsoil Resources Law, as well as regulatory acts issued in 1992 that govern the licensing and use of the subsoil. The principal negotiations in obtaining licenses involve the timing for bringing fields on stream. The timing we propose is generally accepted.

The term of a license may be extended at the initiative of the license holder where the license holder complies with the terms of the license and where the development of the field requires completion or liquidation. The licenses impose certain obligations on us to provide employment, develop local infrastructure, pay local and federal taxes and meet certain requirements relating to environmental matters. Licenses may be suspended or revoked if we fail to comply with their terms. See “Overview of the Russian Gas Industry and Its Regulation—Russian Regulation—Subsoil Licensing.” We believe we are in substantial compliance with the terms of all of our material subsoil licenses (although minor technical breaches may have occurred such as untimely submission of materials for official evaluation and preparation of development documents) and we expect to extend existing licenses at their scheduled expiration. In accordance with current legislation, we plan to extend our licenses that currently have a fixed term to the end of the economic life of the field. As of the date of this Offering Circular, there have been no suspensions of production as a result of decisions by the relevant federal and regional authorities. See “Risk Factors—Risks Relating to our Business—Our licenses may be suspended, amended or terminated prior to the end of their terms, and we may not be able to obtain or maintain various permits and authorizations.”

Exploration Activities

We are continually engaged in the exploration for new deposits of natural gas. These activities involve explorational drilling and geophysical activities in our existing license areas and fields.

Approximately 81% of the 53 exploration and appraisal wells we completed from 2001 through 2003 have yielded discoveries or positive appraisals confirming our estimates regarding hydrocarbons in place. In 2003, we completed 20 exploration and appraisal wells, of which 16 yielded discoveries or positive appraisals confirming estimates of hydrocarbons in place. Our current exploration strategy is to focus on the exploration of new fields and natural gas-bearing horizons in close proximity to fields that have already been developed and have processing and transportation infrastructure. We believe that this strategy will allow us to maximize the percentage of successful drilling at as low a cost as possible and to minimize the investment required for processing and implementation.

In 2003 we opened three new fields in western Siberia and the Krasnodar region. We have estimated the total hydrocarbon reserves of two of these fields to be 4.9 mtoe, and we are currently estimating the reserves of the third field. We are currently conducting exploration activities in eastern Siberia, the republics of Bashkortostan, Dagestan and Komi, and Astrakhan, Orenburg, and Stavropol regions. The Government is also currently considering a development and exploration program for eastern Siberia in which we would be responsible for coordinating the development of natural gas fields and transportation infrastructure in the region.

Our total expenditures on exploration activities in 2003 were RR7.9 billion, and we plan to invest RR12.7 billion roubles in exploration activities in 2004. The intensification of our exploration activities is intended to enable us to increase our reserves base in our principal gas producing regions and to establish our reserves base in eastern Siberia and the Far East. Our exploration activities will be concentrated in the Nadym-Pur-Taz region (including the Obsk waters and Tazovskaya Bay), on the Yamal peninsula, in Krasnoyarsk Krai, Irkutsk Oblast and other regions following receipt of licenses for the development of fields.

The following table sets out data by geographic region on the exploration wells we completed in the periods indicated:

	For the three months ended March 31,		For the year ended December 31,		
	2004	2003	2003	2002	2001
Western Siberia (Urals federal district)					
Successful	0	2	10	17	2
Dry	0	0	1	1	1
Total	0	2	11	18	3
Northern European Russia (Northwestern federal district)					
Successful	0	0	1	0	2
Dry	0	0	1	0	0
Total	0	0	2	0	2
Southern Russia (Southern federal district)					
Successful	0	1	5	0	3
Dry	0	0	2	0	2
Total	0	1	7	0	5
South Ural region (Privolzhski federal district)					
Successful	0	0	0	3	0
Dry	1	0	0	1	1
Total	1	0	0	4	1
Total					
Successful	0	3	16	20	7
Dry	1	0	4	2	4
Total	1	3	20	22	11

Production Activities

We produce natural gas, gas condensate and crude oil from fields located in various regions of the Russian Federation.

Natural Gas. In 2003, we produced 540.2 bcm of natural gas (521.9 bcm in 2002) and accounted for approximately 87.1% of the natural gas produced in Russia by volume. Our production of natural gas in 2002 represented the first annual increase in our production following declines in our production volumes in prior years. We plan to achieve annual production of 550-560 bcm by 2010, increasing to 580-590 bcm by 2020 and 610-630 bcm by 2030.

Gas Condensate. We produced 10.2 million tons (74.9 mmbbls) of gas condensate in 2003 (9.9 million tons (72.6 mmbbls) in 2002). In recent years we have commissioned new gas condensate fields, including new areas at the Yamburgskoye gas condensate field, and we intend to continue to increase our gas condensate production in the Yen-Yakhinskoye field, which we brought on stream during 2003, and the Astrakhanskoye field.

Crude oil. In 2003, we produced approximately 802,800 tons (5.9 mmbbls) of crude oil (706,400 tons (5.2 mmbbls) in 2002).

Our main production regions are as follows:

Western Siberia region (Urals federal district). This is our main natural gas production region and is characterized by severe weather conditions. There are 12 active natural gas, gas condensate and crude oil fields in the Nadym-Pur-Taz region of western Siberia. Our wholly-owned production subsidiaries Nadymgazprom, Urengogazprom, Yamburggazdobysha and Noyabrskgazdobysha operate in this region, as does Purgaz, of which we own 51% and have a proportionate share in its output. These companies together accounted for 92.6% of our natural gas, 51.0% of our gas condensate and 62.2% of our crude oil production in 2003, and 92.5% of our natural gas, 51.4% of our gas condensate and 72.1% of our crude oil production in 2002. Five of our leading fields, Komsomolskoye, Medvezhye, Urengoiszkoye, Yamburgskoye and Zapolyarnoye, are located in this region.

Northern European Russia (Northwestern federal district). This region is characterized by severe weather conditions and has four active gas condensate fields which accounted for 0.5% of our natural gas and 3.3% of our gas condensate production in 2003, and 0.6% of our natural gas and 3.8% of our gas condensate production in 2002. The operating production company for this region is Severgazprom.

Southern Russia (Southern federal district). This area is comprised of two regions, Astrakhan Oblast and the northern Caucasus. The Astrakhan region contains one active gas condensate field, Astrakhanskoye, which accounted for 2.1% of our natural gas and 39.0% of our gas condensate production in 2003, and 2.1% of our natural gas and 38.4% of our gas condensate production in 2002. The operating company for this field is Astrakhangazprom. The 57 fields in the northern Caucasus region accounted for 0.4% of our natural gas, 0.5% of our gas condensate and 13.2% of our crude oil production in 2003, and 0.4% of our natural gas and 1.3% of our gas condensate production in 2002. This production is carried out by Kubangazprom and Kavkaztransgaz.

South Ural region (Privolzhski federal district). There is one active oil and gas condensate field, Orenburgskoye, in the South Ural region which accounted for 3.7% of our natural gas, 2.7% of our gas condensate and 23.9% of our crude oil production in 2003, and 4.1% of our natural gas, 3.2% of our gas condensate and 27.2% of our crude oil production in 2002. The operating company for this field is Orenburggazprom, which produces, processes and transports natural gas.

Southwestern Siberia (Siberian federal district). Our subsidiary Vostokgazprom, of which we own 99.9% (increased in May 2004 from 83.8%) and have a 100% share in its production, produces natural gas from two gas fields in this area. In 2003, this area accounted for 0.7% of our natural gas, 3.6% of our gas condensate and 0.8% of our crude oil production, and in 2002 it accounted for 0.3% of our natural gas, 1.9% of our gas condensate and 0.8% of our crude oil production, including our share of production by Vostokgazprom starting from the second quarter of 2002.

The following table sets out certain production data by region for our wholly-owned and certain other subsidiaries for the periods indicated. Most of our production activities are conducted through wholly-owned subsidiaries.

	For the three months ended March 31,				For the year ended December 31,					
	2004		2003		2003		2002		2001	
	Volume	Percentage of overall production	Volume	Percentage of overall production	Volume	Percentage of overall production	Volume	Percentage of overall production	Volume	Percentage of overall production
Western Siberia⁽¹⁾⁽²⁾										
(Urals federal district)										
Natural Gas (bcm)	135.0	93.2	133.7	92.8	500.1	92.6	482.8	92.5	473.5	92.5
Gas Condensate (thousand tons)	1,544.4	55.5	1303.1	50.4	5,207.6	51.0	5,090.5	51.4	4,971.3	52.4
(mmbls)	11.3		9.6		38.2		37.3		36.4	
Crude oil (thousand tons)	122.1	52.9	124.7	63.2	499.0	62.2	509.0	72.1	508.3	72.2
(mmbls)	0.9		0.9		3.7		3.7		3.7	
Combined (mmboe)	806.6	92.2	797.4	91.8	2,985.3	91.6	2,882.7	91.5	2,827.1	91.5
Northern European Russia										
(Northwestern federal district)										
Natural Gas (bcm)	0.7	0.5	0.7	0.5	2.9	0.5	2.9	0.6	3.2	0.6
Gas Condensate (thousand tons)	71.6	2.6	81.7	3.2	339.0	3.3	374.6	3.8	381.7	4.0
(mmbls)	0.5		0.6		2.5		2.7		2.8	
Crude oil (thousand tons)	18.0	7.8	—	—	—	—	—	—	—	—
(mmbls)	0.1		—		—		—		—	
Combined (mmboe)	4.8	0.5	4.7	0.5	19.6	0.6	19.8	0.6	21.6	0.7
Southern Russia										
(Southern federal district)										
Natural Gas (bcm)	3.2	2.2	3.4	2.4	13.3	2.5	12.9	2.5	12.5	2.4
Gas Condensate (thousand tons)	974.4	35.0	1,204.7	39.7	4,032.7	39.5	3,934.4	39.7	3,770.6	39.8
(mmbls)	7.1		7.5		29.6		28.8		27.6	
Crude oil (thousand tons)	37.5	16.2	22.3	11.3	105.8	13.2	trace	0	3.5	0.5
(mmbls)	0.3		0.2		0.8		trace		trace	
Combined (mmboe)	26.3	3.0	27.7	3.2	108.6	3.3	104.8	3.3	101.2	3.3
South Ural region										
(Privolzhski federal district)										
Natural Gas (bcm)	4.9	3.4	5.3	3.7	20.1	3.7	21.5	4.1	22.8	4.5
Gas Condensate (thousand tons)	78.2	2.8	75.8	2.9	276.0	2.7	319.5	3.2	358.4	3.8
(mmbls)	0.6		0.6		2.0		2.3		2.6	
Crude oil (thousand tons)	53.2	23.1	48.5	24.6	191.6	23.9	192.1	27.2	192.6	27.3
(mmbls)	0.4		0.4		1.4		1.4		1.4	
Combined (mmboe)	29.8	3.4	32.1	3.7	121.7	3.7	130.3	4.1	138.2	4.5
Southwestern Siberia (Siberian federal district)⁽³⁾										
Natural Gas (bcm)	1.1	0.8	1.0	0.7	3.7	0.7	1.9	0.3	—	—
Gas Condensate (thousand tons)	114.9	4.1	98.4	3.8	363.9	3.6	184.0	1.9	—	—
(mmbls)	0.8		0.7		2.7		1.3		—	
Crude oil (thousand tons)	0.0	0.0	1.7	0.9	6.4	0.8	5.3	0.8	—	—
(mmbls)	0.0		trace		trace		trace		—	
Combined (mmboe)	7.3	0.8	6.6	0.8	24.5	0.8	12.0	0.4	—	—
Total⁽⁴⁾										
Natural Gas (bcm)	144.9	100.0	144.1	100.0	540.2	100	521.9	100	512.0	100
Gas Condensate (thousand tons)	2,783.5	100.0	2,583.7	100.0	10,219.2	100	9,903.0	100	9,482.0	100
(mmbls)	20.4		18.9		74.9		72.6		69.5	
Crude oil (thousand tons)	230.8	100.0	197.2	100.0	802.8	100	706.4	100	704.4	100
(mmbls)	1.7		1.4		5.9		5.2		5.2	
Combined (mmboe)	874.7	100.0	868.5	100.0	3,259.7	100	3,149.6	100	3,088.1	100

Notes:

- (1) Data for 2001 through 2003 include 90% of the production from the Cenomanian layer of the West Tarkosalinsk field, pursuant to an agreement with Purneftegazgeologia, the holder of the production license for the field. Under this agreement, which was concluded in accordance with Purneftegazgeologia's license agreement for the field, we receive 90% of the production from the Cenomanian layer of the field in exchange for developing it. As a result of changes in tax legislation that took effect at the start of 2004, we are required to change the terms of our agreement, and production and development of the field ceased in the first quarter of 2004. We are currently seeking a new arrangement with respect to this field that is in accordance with the new tax legislation.
- (2) Includes our 51% share in natural gas produced at the Gubkinskoye field starting from the second half of 2002. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Acquisitions and Dispositions."
- (3) Constitutes 100% of the output of Vostokgazprom starting from the second half of 2002. We increased our ownership interest in Vostokgazprom from 83.8% to 99.9% in May 2004. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Acquisition and Dispositions—Our asset reacquisition program."
- (4) Totals may not add due to rounding.

Major Producing Fields

The following tables set out certain production and other information for our major producing fields in the periods indicated. The fields accounted for 86.5%, 86.4%, 85.9%, 87.2% and 88.1% of our total natural gas production in the three months ended March 31, 2004 and 2003 and the years ended December 31, 2003, 2002 and 2001, respectively. The production licenses for these fields are held by wholly-owned subsidiaries.

	<u>Startup year</u>	<u>License expiry year</u>	<u>Peak production year</u>	<u>Peak annual production (bcm of natural gas)</u>
Western Siberia				
(Urals federal district)				
Urengoiszkoye	1977	2013	1987	304.5
Yamburgskoye	1985	2018	1994	179
Medvezhye	1971	2018	1983	75
Zapolyarnoye	2001	2018	2005 ⁽¹⁾	100 ⁽¹⁾
Komsomolskoye	1993	2012	2002	31.1
Southern Russia				
(Southern federal district)				
Astrakhanskoye	1987	2019	2005 ⁽¹⁾	12 ⁽¹⁾
South Ural region				
(Privolzhski federal district)				
Orenburgskoye	1970	2018	1985	49.4

Note:

(1) Estimated.

For the three months ended March 31,										
2004						2003				
	Natural gas (bcm)	Gas Condensate (thousand tons)	Gas Condensate (mmbbls)	Crude oil (thousand tons)	Crude oil (mmbbls)	Natural gas (bcm)	Gas Condensate (thousand tons)	Gas Condensate (mmbbls)	Crude oil (thousand tons)	Crude oil (mmbbls)
Western Siberia										
(Urals federal district)										
Urengoiyskoye	39.7	1,133.2	8.3	122.1	0.9	41.5	930.1	6.8	124.7	0.9
Yamburgskoye	40.5	411.2	3.0	—	—	41.8	373.0	2.7	—	—
Zapolyarnoye	21.7	—	—	—	—	16.1	—	—	—	—
Medvezhye	7.3	—	—	—	—	7.9	—	—	—	—
Komsomolskoye	8.3	—	—	—	—	8.2	—	—	—	—
Southern Russia										
(Southern federal district)										
Astrakhanskoye	2.8	964.6	7.1	—	—	2.9	1,008.6	7.4	—	—
South Ural region										
(Privolzhski federal district)										
Orenburgskoye	4.9	78.2	0.6	53.2	0.4	5.3	75.8	0.6	48.5	0.4
Total for named fields⁽¹⁾	<u>125.2</u>	<u>2,587.2</u>	<u>19.0</u>	<u>175.3</u>	<u>1.3</u>	<u>123.7</u>	<u>2,387.5</u>	<u>17.5</u>	<u>173.2</u>	<u>1.3</u>

For the year ended December 31,															
2003						2002					2001				
Natural gas (bcm)	Gas Condensate (thousand tons)	Gas Condensate (mmbbls)	Crude oil (thousand tons)	Crude oil (mmbbls)		Natural gas (bcm)	Gas Condensate (thousand tons)	Gas Condensate (mmbbls)	Crude oil (thousand tons)	Crude oil (mmbbls)	Natural gas (bcm)	Gas Condensate (thousand tons)	Gas Condensate (mmbbls)	Crude oil (thousand tons)	Crude oil (mmbbls)
Western Siberia															
(Urals federal district)															
Urengoiyskoye . . .	152.4	3,701.8	27.1	499.0	3.7	166.9	3,593.8	26.3	509.0	3.7	180.4	3,635.6	26.6	508.3	3.7
Yamburgskoye . .	153.4	1,505.8	11.0	—	—	157.1	1,496.7	11.0	—	—	166.0	1,335.7	9.8	—	—
Zapolyarnoye . . .	67.5	—	—	—	—	36.8	—	—	—	—	7.1	—	—	—	—
Medvezhye	28.3	—	—	—	—	30.9	—	—	—	—	33.4	—	—	—	—
Komsomolskoye . .	31.0	—	—	—	—	31.1	—	—	—	—	31.0	—	—	—	—
Southern Russia															
(Southern federal district)															
Astrakhanskoye . .	11.4	3,983.0	29.2	—	—	10.9	3,801.0	27.9	—	—	10.5	3,670.5	26.9	—	—
South Ural region															
(Privolzhski federal district)															
Orenburgskoye . .	<u>20.1</u>	<u>276.0</u>	<u>2.0</u>	<u>191.6</u>	<u>1.4</u>	<u>21.5</u>	<u>319.5</u>	<u>2.3</u>	<u>192.1</u>	<u>1.4</u>	<u>22.8</u>	<u>358.4</u>	<u>2.6</u>	<u>192.6</u>	<u>1.4</u>
Total for named fields⁽¹⁾	<u>464.1</u>	<u>9,466.6</u>	<u>69.4</u>	<u>690.6</u>	<u>5.1</u>	<u>455.2</u>	<u>9,211.0</u>	<u>67.5</u>	<u>701.1</u>	<u>5.1</u>	<u>451.2</u>	<u>9,000.2</u>	<u>66.0</u>	<u>700.9</u>	<u>5.1</u>

Note:

(1) Totals may not add due to rounding.

Production Costs

Our production costs largely reflect the geological composition of the hydrocarbon deposit under production as well as the cost of operating the infrastructure that is necessary to sustain our production levels.

Current production costs at three of our leading fields, Medvezhye, Urengoiskeye and Yamburgskoye, will likely increase because we will be required to use more expensive extraction techniques to compensate for declining pressure in the deposits and to extract natural gas from deeper, more geologically complex deposits. Production costs at our fields in the Yamal Peninsula are also expected to be high. Our strategy is to mitigate these higher costs of production through the development and use of new technologies.

Development Activities

We are engaged in developing new fields for commercial production and aim to achieve annual natural gas production of 550-560 bcm by 2010, increasing to 580-590 bcm by 2020 and 610-630 bcm by 2030. The development of our fields involves drilling and completing production wells, constructing units that process hydrocarbons for transportation and constructing booster compressor stations to compensate for the loss of pressure in our fields with declining production.

The following table sets out data by region on the development wells we drilled in the periods indicated:

	For the three months ended March 31,		For the year ended December 31,		
	2004	2003	2003	2002	2001
Western Siberia					
(Urals federal district)	87	53	246	176	117
Northern European Russia					
(Northwestern federal district)	0	0	0	0	0
Southern Russia					
(Southern federal district)	0	2	15	20	7
South Ural region					
(Privolzhski federal district)	0	0	5	5	5
Eastern Siberia					
(Siberian federal district)	<u>3</u>	<u>1</u>	<u>7</u>	<u>15</u>	<u>—</u>
Total	<u>90</u>	<u>56</u>	<u>273</u>	<u>216</u>	<u>129</u>

The Urengoiskeye, Yamburgskoye and Medvezhye fields in the Nadym-Pur-Taz region of western Siberia have historically accounted for the bulk of our production. Production from these three leading fields has been declining in recent years and will continue to decline in the years ahead as we deplete the natural gas deposits in these fields. See “Risk Factors—Risks Relating to our Business—If we fail to develop our undeveloped fields, our production levels will decline materially” and “—Production Activities.” To achieve and maintain our targeted production levels, we plan to start production at the Pestsovoye and the Ety-Purovskoye fields in 2004 and to bring production from the Cenomanian layer of the Zapolyarnoye field to its targeted level of 100 bcm per year in 2005. In 2006 and 2007, we plan to finalize the completion of the Kharvutinskoye and Aneryakhinskoye areas of the Yamburgskoye field. We then plan to bring on stream the Valanginian layer of the Zapolyarnoye and Pestsovoye fields, as well as the Yuzhno-Russkoye field and the Bovanenkovskoye field of the Yamal peninsula.

We expect our gas condensate and crude oil production to increase as we increase natural gas production from the lower layers of our fields, which generally have higher proportions of gas condensate and crude oil.

We are currently engaged in significant development projects including:

Zapolyarnoye field. This field is located adjacent to our main producing fields in the Nadym-Pur-Taz region and we are currently developing its Cenomanian layer, which is characterized by low bedding depth and high delivery rates of wells. The field commenced commercial production in the third quarter of 2001. We commissioned the third gas treatment plant at the field in December 2003, and plan to bring it to its design capacity of 32.5 bcm annually by late 2004. Annual production from the field is expected to reach its maximum of 100 bcm annually starting in 2005. We plan to invest a further RR18.0 billion in developing the Zapolyarnoye field in 2004 and 2005. Development of the Zapolyarnoye field will partially compensate for the declining production in our mature fields in western Siberia.

Yubileinoe field. This field has been under development since 1993. In 2003, production from the field was 19.5 bcm, as compared to 17.6 bcm in 2002. We expect the field to achieve its full production

capacity of 21 bcm annually in 2004, after we bring the Yuzhno-Yubileinoe area of the field into operation. We plan additional investments in the development of the field to be RR0.4 billion.

Kharvutinskoye area of the Yamburgskoye field. This area is located in the Nadym-Pur-Taz region. It was brought on stream in 1996 and produced 7.9 bcm of natural gas in 2003, as compared to 8.6 bcm in 2002. We expect this area to reach its maximum production capacity of 25 bcm in 2009, and have planned for capital investments of RR35.8 billion from 2004 through 2009 for this project.

Pestsovoye field. The Pestsovoye field is located in western Siberia. We plan to bring it on stream from 2004, and it is expected to reach its planned annual production capacity of 27.5 bcm of natural gas per year in 2007. We plan to invest RR21.0 billion from 2004 through 2007 in developing this field.

Aneryakhinskoye area of the Yamburgskoye field. This field is located in western Siberia. It was brought on stream in March 2004, and it is expected to reach its planned production capacity of 10 bcm of natural gas per year in 2006. We plan to invest RR14.8 billion from 2004 through 2006 in developing this field.

Vyngayakhinskoye and Ety-Purovskoye fields. These fields are located in western Siberia. The Vyngayakhinskoye field came on stream in 2003, producing 0.8 bcm of natural gas, and we estimate that it will produce 5 bcm of natural gas per year starting in 2004. The Ety-Purovskoye field will be brought on stream in 2004, and we anticipate that it will produce 15 bcm of natural gas annually by 2006. We plan capital investment of RR6.6 billion in developing these two fields from 2004 through 2006.

Yen-Yakhinskoye field. This field is located in western Siberia. The field was brought on stream in December 2003, and its total production in 2003 was 0.02 bcm of natural gas and 5,800 tons (0.04 mmbbls) of gas condensate. We anticipate that this field will produce 1.8 million tons (13.2 mmbbls) of gas condensate annually from 2006, and 5 bcm of natural gas annually from 2007. We plan further investment in developing the field of RR8.8 billion from 2004 through 2007.

Regional Development Priorities

We are also currently engaged in planning for future development in various regions of Russia, both on our own and in conjunction with other parties. We expect that these projects will enable us to sustain and increase our production in order to meet our annual production targets.

We are currently focusing our activities in the following regions:

Yamal Peninsula. The Yamal Peninsula is located to the north of, and is characterized by harsher climatic conditions than, the Nadym-Pur-Taz region. At the end of 2003, the 11 natural gas and 15 crude oil and gas condensate fields in the Yamal Peninsula region had combined ABC1 reserves of 10.4 tcm of natural gas, 228.3 million tons of gas condensate and 291.8 million tons of crude oil, of which 5.8 tcm of natural gas, 100 million tons of gas condensate and 227 million tons of crude oil are in the region's largest fields, the Bovanenkovskoye and Kharasaveiskoye gas condensate fields and the Novoportovskoye oil field. We hold production licenses for the Bovanenkovskoye and Kharasaveiskoye gas condensate fields and the Novoportovskoye oil field. The natural gas production potential of the Yamal Peninsula's fields is estimated at 250 bcm per year for natural gas and a total of 10 to 12 million tons of liquid hydrocarbons. We anticipate that the production of natural gas from these fields will help us to reach our long-term production targets. On the order of the President and Prime Minister of the Russian Federation, in conjunction with the Yamal-Nenets regional administration we developed a "Program for Comprehensive Commercial Development of Hydrocarbon Deposits on the Yamal Peninsula and under its Adjacent Waters" and submitted the plan to the Ministry of Energy of the Russian Federation and other Russian government agencies in 2002. This plan sets forth a state policy for investment, construction, taxation and legal support for the development of the resources in the Yamal Peninsula, and the parameters for its implementation of this program are currently being finalized with the Ministry of Industry and Energy.

We are currently focusing our work in the Yamal Peninsula on development of the Bovanenkovskoye field. We are preparing a feasibility study to invest in the completion of the Bovanenkovskoye field and in natural gas transportation infrastructure. Based on the results of that study, we will determine the sequence of commissioning of new facilities and the dynamics of natural gas production at the field; assess the principal transport routes and plans for the construction of trunk gas pipelines given natural gas production in the Nadym-Pur-Taz region by us and by independent producers; analyze existing infrastructure; and develop our investment priorities and plans to provide for development of both the Bovanenkovskoye field as well as subsequent development of the Kharasaveiskoye field. We plan to revise the "Program for Comprehensive Commercial Development of Hydrocarbon Deposits on the Yamal Peninsula and under its Adjacent Waters" in 2005 to take account of these plans.

Eastern Siberia and the Far East. Eastern Siberia and the Far East contain significant unexploited natural gas reserves, estimated at approximately 6.6 tcm. The most significant reserves are in the Kovykta and Chyandinskoye fields, with estimated reserves of 2 tcm and 1.24 tcm, respectively. Other significant fields in the region are the Sakhalin shelf, Yurubcheno-Tokhomskoye and Sobinsko-Paiginskoye fields. In this region, we currently hold a license for the Yuzhno-Kovyktinskoye area and the Sobinski area of the Sobinsko-Paiginskoye field.

On July 16, 2002, the Government issued Decision No. 975-r, appointing us to coordinate the implementation of a program for creating in eastern Siberia and the Far East a unified natural gas production, transportation and supply system taking into account eventual gas exports to China and other Asian-Pacific countries. On March 13, 2003, the Government issued a decision outlining the general principles for this program, and we are currently engaged in developing plans for the implementation of this program. In accordance with this program our subsidiary Krasnoyarskgazprom has received a license to develop the Sobinski area of the Sobinsko-Paiginskoye field, and is currently conducting geological exploration activities. In November 2003, our Board of Directors resolved that our future plans for the development of reserves in the region should focus on participating in tenders and auctions for the exploration and development of hydrocarbon resources in Irkutsk Oblast, Khabarovsk Krai, Krasnoyarsk Krai, the Republic of Sakha (Yakutia) and Sakhalin Oblast, collaborating with other participants in the gas market in the region and developing a gas supply network for end users of natural gas. We have also formed a consortium with Rosneft and Surgutneftegaz to develop projects in this region. See “—Projects and Alliances in Reserves and Production—Rosneft and Surgutneftegaz.”

Shtokmanovskoye and Prirazlomnoye fields. The Shtokmanovskoye field is an offshore natural gas field located in the Barents Sea northwest of the Yamal Peninsula, and the Prirazlomnoye field is an offshore oil field in the Pechora Sea.

We are developing these fields in a joint activity with Rosneft, Rosshelf (our subsidiary) and Sevmorneftegaz, a joint venture in which Rosshelf and Rosneft-Purneftegaz, a subsidiary of Rosneft, each have a 50% stake. Sevmorneftegaz holds a production license for the Prirazlomnoye and Shtokmanovskoye fields. Our total effective interest in this joint activity is 48.85%, and we have joint control over the assets of the joint activity with Rosneft. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Certain Acquisition and Dispositions.” The Shtokmanovskoye field is being developed within the framework of a development plan that calls for a planned eventual annual production of 70 bcm of natural gas. We estimate that this development project will require investments of U.S.\$11.0 billion. The terms of the license require that development of the field begin by 2010. We are considering the possibility of producing LNG as part of the first phase of development of the Shtokmanovskoye field, and are currently conducting discussions on cooperation with various international companies in the production of LNG.

Plans for the development of the Prirazlomnoye field contemplate maximum annual production of 6.58 million tons (48.2 mmbbls) of crude oil with total investment of more than U.S.\$1 billion through 2012 in order to bring the field to its full production capacity. It is planned to complete construction of an offshore oil platform in 2005, with the first production to begin by the end of 2005.

Projects and Alliances in Reserves and Production

Rosneft and Surgutneftegaz. We concluded an agreement with Rosneft and Surgutneftegaz in December 2003 to cooperate in the development of natural gas and crude oil fields and to develop an integrated natural gas supply system in eastern Siberia and the Republic of Sakha (Yakutia), and we are currently establishing working groups with respect to specific projects to be undertaken in the context of this agreement. The projects undertaken by the members of the consortium, each of which will be organized on an individual basis under the consortium’s unified management committee, are also to be coordinated with regional social and economic development programs in eastern Siberia and the Republic of Sakha (Yakutia). Development projects will be conducted in conjunction with the regional administrations and the joint social-economic development program of Eastern Siberia and the Republic of Sakha (Yakutia) for oil and gas fields.

Rosneft. We entered into a framework agreement with Rosneft in October 2001 to create a joint venture company for the development of the Kharampurskoye, Vyngayakhinskoye, Ety-Purovskoye, Prirazlomnoye and Shtokmanovskoye fields, and work is currently being conducted in accordance with the terms of this agreement. See “—Regional Development Priorities—Shtokmanovskoye and Prirazlomnoye fields.” We and Rosneft have equal responsibility for financing projects conducted by this joint

activity. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Certain Acquisitions and Dispositions.”

LUKOIL. In November 2002, we entered into a strategic partnership agreement with LUKOIL, which produces natural gas at fields in western Siberia that are located close to our major natural gas fields. The agreement provides, inter alia, for cooperation in oil and gas projects in Russia and other countries from 2002 to 2005. Under this agreement, we concluded a framework agreement in March 2003, according to which LUKOIL will sell us gas it processes at its Nakhodkinskii gas field and a further agreement with respect to our purchasing gas produced at the Nakhodkinskii gas field in October 2003. Starting from the fourth quarter of 2005, our purchases will total approximately 8 bcm in 2006. LUKOIL is constructing a connecting gas pipeline from the Nakhodkinskii field to the Yamburg compressor station, from where we will transport the gas to the final customers. The agreement also provides a formula for the prices that we are to pay for our purchases of gas from the Nakhodkinskii field, with a minimum of US\$22.50 per mcm of gas exclusive of VAT.

In June 2003 we concluded a founding agreement on the organization of OOO TsentrCaspNeftegaz (“TsentrCaspNeftegaz”), a joint venture in which we and LUKOIL each hold a 50% stake. The joint venture has been established under the parameters of a protocol to the treaty between Russia and Kazakhstan on the demarcation of the seabed in the northern part of the Caspian Sea. TsentrCaspNeftegaz will be authorized to act on behalf of the Russian Federation for the development of the Central geological structure in the Caspian Sea together with ZAO NK KazMunaiGaz on behalf of Kazakhstan in a joint venture in which each of the participants will hold a 50% stake. The Central geological structure is located within the Russian sector of the Caspian Sea, 150 kilometers to the east of Makhachkala. According to estimates by LUKOIL, this structure contains 521.1 million tons (3,819.7 mmbbls) of extractable oil reserves and 91.7 bcm of oil gas. TsentrCaspNeftegaz and KazMunaiGaz are currently holding discussions on an agreement for the joint development of the Central geological structure.

Central Asia. As part of our strategy to maintain our natural gas sales while production from our mature fields declines, we have signed agreements to purchase natural gas from Uzbekistan and Turkmenistan. In December 2002 we signed an agreement with NKKh Uzbekneftegaz that provides for cooperation in purchasing natural gas in Uzbekistan, producing gas in Uzbekistan under the terms of a production sharing agreement, conducting diagnostic assessments of trunk pipelines, and modernizing gas transport capacity. In 2003, we concluded an agreement to purchase natural gas from Uzbekistan between 2003 and 2012, and we started purchases from Uzbekistan in May 2003. Purchases from Uzbekistan totaled 1.3 bcm in 2003, are expected to rise to 7 bcm in 2004 and up to 10 bcm annually from 2005 to 2012. Together with NKKh Uzbekneftegaz and the government of the Republic of Uzbekistan, we are also currently conducting feasibility studies for the development of hydrocarbon fields in the Ustyurt region of Uzbekistan, and in April 2004 we signed an agreement with NKKh Uzbekneftegaz for the development of the Shakhpathy field in Uzbekistan on the basis of a production sharing agreement.

In April 2003, the Presidents of Russia and Turkmenistan concluded an agreement on cooperation in the gas sector for 25 years, which came into force from January 1, 2004. Pursuant to this agreement purchases from Turkmenistan are expected to be 5-6 bcm in 2004 and may rise to 6-7 bcm in 2005 and 10 bcm in 2006. Following the capacity increases resulting from the reconstruction of the Central Asia-Center transportation system, these purchases could reach 60-70 bcm in 2007 and 70-80 bcm annually from 2009 to 2028. See “—Transportation—International Projects and Alliances for Transportation—Central Asia.” The initial price for this gas is U.S.\$44 per mcm, of which 50% will be paid in cash and 50% in the form of technological equipment and services through 2006.

In May 2003 we concluded an agreement with the government of Kyrgyzstan on collaboration in the gas industry. This agreement provides for joint activities in rebuilding, constructing and operating the gas transportation system in Kyrgyzstan; joint exploration and development of hydrocarbon reserves; providing services to the Kyrgyz gas transportation system; and reconstructing the underground gas storage system in Kyrgyzstan. We are also now considering the transfer to us in trust management of the Kyrgyz state’s 85.16% stake in AO Kyrgyzneftegaz.

While the purchases of natural gas from Turkmenistan and Uzbekistan are expected to constitute a significant proportion of our total sales volumes in the coming years, they are expected to decline in importance when we bring on stream new production fields after 2008, and particularly when we bring the fields in the Yamal Peninsula on-stream from 2010. In order to ensure the availability of adequate transport capacity for the natural gas that we purchase, we have concluded agreements to transport natural gas from Turkmenistan through Uzbekistan and Kazakhstan, and we are currently conducting

negotiations on arrangements for the transit of natural gas from Uzbekistan through Kazakhstan. We are also engaged in activities to reconstruct and expand the natural gas transportation network in Central Asia. See “—Transportation—International Projects and Alliances for Transportation.”

Wintershall. Under a strategic alliance agreement with BASF (see “—Transportation—International Projects and Alliances for Transportation”), we prepared a feasibility study for the joint development of the Achimovsk formations of the Urengoiskoye field jointly with Wintershall AG (“Wintershall”), a wholly-owned subsidiary of BASF. In July 2003 we concluded a framework agreement and constitutive documents on the creation of a joint venture between Gazprom and Wintershall for this project. Under this agreement, we established a joint venture in which we and Wintershall each have a 50% interest, Achimgaz, to develop the first experimental section of the Achimovsk layer of the Urengoiskoye gas and condensate field. At its plateau production levels we expect this section to produce approximately 8.3 bcm of gas and 2.8 million tons (20.5 mmbbls) of gas condensate annually, and a total of approximately 200 bcm of gas and 40 million tons (293.2 mmbbls) of gas condensate over its 43-year productive life. Developing this section will require approximately U.S.\$700 million in capital investment. The approximately U.S.\$90 million required for the pilot phase of the project will be financed by Wintershall, including detailed engineering work and experimental-industrial exploitation of the first part. If this first phase is successful, industrial development of the field will begin. Our investment is expected to be financed from profits generated by the project. We will purchase gas and gas condensate produced by Achimgaz, with prices to be determined on a formula based on the price of natural gas on the border between Germany and Poland and on natural gas prices in the Yamal-Nenets autonomous region.

South Pars. Since 1997, we have been involved in a project to develop the second and third phases of the South Pars field, located in the Iranian segment of the Persian Gulf, with a total cost of more than U.S.\$2 billion. We hold a 30% interest in the project. Our partners in this project are Total, which holds a 40% interest, and Petronas, which holds a 30% interest.

A contract with the National Iranian Oil Company (“NIOC”) provided for the construction and installation of two off-shore production platforms, drilling 20 exploration wells, laying two off-shore pipelines extending 105 km from the coast and construction of an on-shore gas processing facility. The construction of these facilities has been completed, and the gas production complex is now operational. NIOC started to make payments to the project partners for this work in the second quarter of 2002, with such payments scheduled to continue through 2009. In May 2004, the participants transferred project operations to NIOC.

The U.S. Department of State has issued a determination that the investment made by our partners and us in Iran’s South Pars gas and condensate field constituted activity that is covered by the Iran and Libya Sanctions Act and, at the same time, communicated its decision to waive sanctions under Section 9(c) of the Sanctions Act with respect to such investment. The waiver applies to activities in the South Pars field only, and not to any other activities we may conduct in Iran. See “Risk Factors—Risks Relating to Our Business—Violations of existing international or U.S. sanctions could subject us to penalties that could have an adverse effect on us.”

Petrovietnam. Under a protocol on cooperation signed with Petrovietnam in November 1997, in September 2000 we concluded an agreement for the development of the Vas Vo/Bak Bo field in the Gulf of Tonkin. We participate in this project through Zarubezhneftegaz, in which we hold a 60.1% interest (the other shareholders in Zarubezhneftegaz are GUP RVO Zarubezhneft, which holds 24.9%, and Stroytransgaz, which holds 15.0%). According to the terms of the agreement, the exploration, production and sale of hydrocarbons will be conducted by the joint operating company Vietgazprom, in which Zarubezhneftegaz and Petrovietnam have equal interests, and in which they will share accordingly in production.

According to preliminary estimates, the production of natural gas at this field is to begin in 2008, and the maximum production is expected to be 20 bcm annually. The project is expected to require total capital investment of approximately U.S.\$1.1 billion. The first exploration well has been drilled, and the results are currently being analysed.

Bay of Bengal. On the basis of an agreement concluded at the meeting of the Russian-Indian Intergovernmental Commission in 2000, together with the state-owned company Gas Authority of India Limited we won a tender for the exploration and development of hydrocarbon reserves in Block 26 in the Bay of Bengal, on a production sharing basis. We have transferred our functions as operator of the field to Zarubezhneftegaz. The total resources of Block 26 are estimated at 250 to 380 mtoe, including approximately 320 bcm of natural gas. At the present time seismic assessment and analysis is being conducted on this field, and a test well is scheduled to be drilled in the fall of 2004. Capital investment in the project is estimated at approximately U.S.\$1.5 billion.

Transportation

We own and operate the UGSS, a single, centrally-controlled system for natural gas preparation, transportation and storage. In 2003, we transported 674.1 bcm of natural gas, and in 2002 we transported 637.1 bcm of natural gas. Transportation for third parties accounted for approximately 83.3 bcm and 75.3 bcm, or 12.4% and 11.8%, of the natural gas transported by us, and generated RR28,226 million and RR18,028 million in revenue for us in 2003 and 2002, respectively.

The following table sets out certain data for our transportation segment for the periods indicated:

	As of or for the year ended December 31,		
	2003	2002	2001
Total volume transported (bcm).....	674.1	637.1	630.6
of which for third parties (bcm).....	83.3	75.3	81.3
Depreciation (million RR)	60,617	57,624	62,533
Capital expenditures (million RR).....	83,826	78,607	77,295
Total Assets (million RR)	1,246,597	1,228,742	1,240,431

The UGSS includes the world's largest high-pressure trunk pipeline system, with over 151,600 km of pipelines (not including connecting pipelines) as of December 31, 2003. Gas transportation was powered by 264 compressor stations with a total capacity of approximately 43,800 MW, also as of December 31, 2003. To help handle seasonal and other peak demand, we maintain 24 underground natural gas storage facilities with a storage capacity of approximately 62.0 bcm.

In Russia, the UGSS transports natural gas an average distance of approximately 2,400 km for domestic consumption and 3,400 km for export. Our dispatch management center, located in Moscow, controls and manages the UGSS and all natural gas transportation in Russia.

Our pipeline system transports natural gas principally from large western Siberian fields westward toward the more heavily populated regions of Russia, certain FSU countries and Europe. Other parts of the pipeline system originate in the natural gas fields of the southern Russia-Volga region, including the Orenburgskoye and Astrakhanskoye fields. Several large pipeline systems enter Russia from Kazakhstan, transporting natural gas from fields in Turkmenistan, Uzbekistan and Kazakhstan. In 2003, we concluded agreements to purchase and transport significant volumes of natural gas from Turkmenistan and Uzbekistan. See “—Reserves and Production—Projects and Alliances in Reserves and Production—Central Asia.”

Our transportation segment is highly integrated to ensure reliable natural gas deliveries to distributors, export customers and consumers. The high level of integration of our pipeline network is achieved through the use of multiple and parallel pipelines, inter-connectors and underground storage facilities. In most cases, the extensive branching structure of the UGSS, together with the availability of spare pipeline throughput capacity, enables us to re-route or to increase natural gas flow in case of an emergency. We believe that within the past ten years there have not been any significant supply interruptions to our customers, despite several pipeline failures, as a result of the use of available spare transportation capacity within the UGSS and by releasing gas from our gas storage system.

Organization of Transportation Activities

Our gas transportation activities are conducted through specialized regional gas transportation subsidiaries, gas distribution companies and gas storage facilities. Our dispatch management center, located in Moscow, controls and manages the UGSS and all natural gas transportation in Russia.

High pressure trunk pipeline. Our high-pressure trunk pipeline transports natural gas from production areas to refining facilities and other gas consumers. We operate and service this pipeline on a regional basis through our 19 wholly-owned gas transportation subsidiaries, which are responsible for the exploitation and maintenance of our high-pressure trunk gas pipelines, gas transit and deliveries of gas to gas distribution companies and for export. The trunk pipeline consists of multiple parallel lines of large diameter pipes (defined as pipes with diameters of 1,420 mm, 1,220 mm and 1,020 mm).

We are continually working to improve the UGSS. In 2002, we approved an investment program to refurbish a number of gas transportation facilities by the end of 2006. The main objectives of this program include:

- ensuring the supply of our projected volumes of gas, especially from the Nadym-Pur-Taz region, to both our domestic and export markets;

- ensuring the reliability of gas transportation and supply to gas consumers in Russia;
- improving industrial and ecological safety measures; and
- ensuring the efficiency of the transportation system through energy saving measures, optimizing our utilization of the system and lowering maintenance costs.

We anticipate that by 2006 this program to refurbish our gas transportation facilities will increase our gas transportation throughput capacity in the UGSS by 15 bcm per year, increase our gas export throughput capacity by 5 bcm per year, decrease the UGSS internal use of gas by 5 bcm per year and decrease hazardous emissions, including 45,000 tons per year of nitric oxides, in comparison to the corresponding amounts in 2002. We have already reduced our hazardous emissions, including by 1.73 million tons of carbon monoxide and by 4,200 tons of nitric oxide, in 2003 in comparison to 2002.

We expect the program to require investments of RR230.6 billion from its inception in 2002 through 2006, of which RR155.7 billion or 67.5% is for restructuring key technological facilities, such as compressor stations and pipelines, and RR74.9 billion or 32.5% on restructuring support systems facilities, such as our energy, water supply, communications and electrochemical protection infrastructure.

Storage. We operate a network of 24 underground storage facilities in order to help smooth seasonal fluctuations in the demand for gas, and we are currently constructing two new underground gas storage facilities. During heating periods, we supply approximately 20% of total deliveries of natural gas to Russian consumers from our gas storage network, and in periods of extreme cold this may reach 30%. By the start of the 2003/2004 heating season, we had stored 62.0 bcm of market-grade natural gas in our underground storage facilities, as well as an additional 8.5 bcm, 2.8 bcm and 2.3 bcm of natural gas in underground storage facilities in Ukraine, Germany and Latvia, respectively, under gas storage agreements.

We are currently implementing a program to increase our underground storage capacity by reconstructing and expanding our existing facilities and commissioning new gas storage sites. By the start of the 2004/2005 heating season, we expect that this program will enable us to increase our storage capacity by 1.65 bcm and to increase our average daily outflows from storage to 470.5 mcm, from 454.6 mcm in the 2003/2004 heating season. We plan to increase our average daily outflow capacity to 550 mcm by the start of the 2006/2007 heating season. Our aggregate investment in storage facilities in 2003, including operational drilling, amounted to RR6.4 billion, and we plan to invest a further RR7.1 billion in 2004 and a total of RR19.9 billion in 2005 and 2006.

Investment in Transportation Infrastructure. For 2004, we have budgeted capital expenditures of RR103.4 billion on our transportation and storage system, of which RR20.1 billion is for refurbishment of compressor stations, existing pipelines and system-wide facilities, and the balance of which will be dedicated to the expansion of the pipeline system.

We outsource a significant amount of our pipeline construction work to third-party contractors through a tender process, and we are seeking to increase this amount in the next several years. Our tender committee awards contracts subject to tender to the most competitive bidder. Stroytransgaz has been a successful bidder for a large number of our construction projects, due to the competitive terms that it has offered and its historical experience of successful cooperation with us. See “Certain Transactions—Transactions with Stroytransgaz.”

Age and Maintenance

Construction of our gas pipeline system commenced nearly 60 years ago with the first Saratov-Moscow pipeline, and most of our gas pipeline system was constructed from 1970 to 1990. The age of the pipeline system, as of December 31, 2003, is shown in the table below (not including connecting pipelines):

<u>Years Since Construction</u>	<u>Length (km)</u>	<u>% of total</u>
Up to 10 years	21,800	14
11-20 years.....	57,800	38
21-33 years.....	45,700	30
Over 33 years	26,300	18
Total	151,600	100

We carry out annual capital repairs and preventative maintenance to improve the reliability of gas supply, technological and environmental safety and the efficiency of gas distribution. Maintenance work

is preceded by gas pipeline inspections achieved through various means. In 2003, we inspected approximately 20,000 km of pipelines with in-the-pipe probes and checked approximately 26,700 km of trunk gas lines using electric measurements. As a result of these diagnostic checks, we undertook repairs to approximately 1,350 km of pipelines and 212 underwater crossings. As a result of such pipeline repairs and an improvement in the technology of our pipeline, the incidence of faults that involve interruptions or restrictions of gas supply dropped from 0.58 per 1,000 km of pipeline in 1985 to 0.21 per 1,000 km in 2002 and 0.18 per 1,000 km in 2003. We believe that the current level of diagnostic activities is optimal for the present usage of our pipeline system. As the pipeline system ages, we plan to increase the level of our diagnostic activities.

Gas Transportation Balance

Natural gas flows into our trunk pipelines from our own production, from the production of independent and Central Asian producers, and withdrawals from underground storage. Natural gas flows from our trunk pipelines to customers in Europe, the FSU and Russia and to our underground storage facilities. After accounting for operational requirements of the pipeline system and other technical factors, total inflows are equal to total outflows in a particular period.

The pipeline system consumed approximately 51.3 bcm of natural gas in 2003, 88% of which was used to power its operations and the rest of which was accounted for by technological losses, including gas lost during maintenance work on the pipelines.

The following table sets forth data on the natural gas balance of the UGSS for the periods indicated (including natural gas in transit from Central Asia):

Gas Balance Items	For the three months ended March 31,		For the year ended December 31,		
	2004	2003	2003	2002	2001
	(bcm)				
Total gas supplies, including	198.7	193.4	674.1	637.1	630.6
Our gas production and purchases by our subsidiaries ⁽¹⁾⁽²⁾	140.6	139.1	524.9	510.6	499.0
Gas from independent suppliers, including purchases by Gazprom and gas in transit from Central Asia	27.9	23.3	95.5	79.6	77.4
Withdrawals from underground storage ⁽³⁾	25.2	29.3	42.8	40.4	48.3
Decrease in natural gas volume within UGSS pipelines ⁽⁴⁾	4.8	1.5	10.2	5.9	5.2
Other	0.2	0.1	0.7	0.6	0.7
Total deliveries, including	198.7	193.4	674.1	637.1	630.6
Additions to underground storage	0.4	0.0	56.3	45.7	46.8
Deliveries to customers in Russia	112.4	113.1	327.0	319.1	317.5
Deliveries to Europe	40.0	37.7	134.7	129.4	127.0
Deliveries to FSU countries	27.5	26.7	94.2	88.8	88.0
Technological needs and transportation system issues ⁽⁵⁾	14.3	14.0	51.3	47.7	45.7
Increase in natural gas volume within UGSS pipelines ⁽⁴⁾	4.1	1.9	10.6	6.4	5.6

Notes:

- (1) Amounts are less than yearly total production because some of the natural gas we produce is used for the operations of booster compressor stations and in northern cities near our fields and thus does not enter the UGSS.
- (2) Includes our share of the production of Purgaz and deliveries to the UGSS by Vostokgazprom starting from the second half of 2002.
- (3) Includes gas of independent suppliers.
- (4) Represents changes in the volume of gas contained within the UGSS pipeline network.
- (5) Includes own consumption required to run natural gas compressor stations plus technological losses, including gas lost during repair work.

Natural Gas Transit through Ukraine and Belarus

All of the natural gas we export outside the FSU (except Finland and in part to Turkey) is transported outside of Russia through pipelines maintained by other countries, primarily Ukraine. We pay transit fees for the use of these pipelines. The negotiations of these fees and access to these pipelines are important elements of our export business, and transit fees are a significant element of the natural gas price to end users in Europe. See “—Marketing.” Natural gas is transported to the western, central and eastern European markets primarily through the system of trunk pipelines from Urengoi to Uzhgorod.

A significant portion of the natural gas we export outside the FSU is transported through pipelines in Belarus. In January 2004, pending completion of negotiations with Belarus with respect to the terms of our participation in a joint venture with Beltransgaz, transit fees and prices for the supply of natural gas, we largely stopped selling natural gas to customers in Belarus. See “—Marketing—The FSU.” Our transit of gas to the countries in Europe through the pipeline network in Belarus, including the Yamal-Europe pipeline, was not affected. See “Risk Factors—Risks Relating to our Business—We face certain operational risks which may result in losses and additional expenditures.” We concluded new agreements for the supply to and transit through Belarus of natural gas in June 2004.

Third-party Access to the UGSS

Since 1998, independent Russian suppliers have been granted non-discriminatory access to existing UGSS capacity. We provide independent suppliers with access to the UGSS subject to the following requirements:

- availability of spare transport capacity for the time period proposed by the independent supplier;
- quality and technical parameters of the natural gas supplies;
- availability of input connections from suppliers and output connections to consumers and natural gas recovery and quality control stations; and
- availability of natural gas supplies and relevant customer demand for the proposed time period.

In 2003, independent gas suppliers supplied approximately 83.3 bcm of the natural gas transported through the UGSS, as compared to 75.3 bcm in 2002. These amounts included gas in transit from Central Asia on behalf of other parties. Itera was the largest third-party user of the UGSS in 2002, accounting for 61 bcm of such volumes in that year, declining to 32 bcm of such volumes in 2003. In January 2003, Eural Trans Gas (“ETG”) commenced deliveries of Central Asian gas, which is transported through our pipeline system to the border between Russia and Ukraine, and accounted for 34.9 bcm of the third-party gas we transported in 2003.

We currently transport gas from Turkmenistan to Ukraine in accordance with intergovernmental agreements between Turkmenistan and Ukraine that extend through 2006. In the context of these agreements, ETG was appointed by the Ukrainian government to serve as the operator on behalf of NAK Naftogaz Ukrainy for deliveries of natural gas from Turkmenistan to Ukraine. ETG takes delivery of the natural gas at the border of Turkmenistan with Uzbekistan and Kazakhstan, and in December 2002 concluded a contract with us on the transit of its gas through Uzbekistan, Kazakhstan and Russia to the border with Ukraine. The transit of this gas through Uzbekistan and Kazakhstan is on the basis of contracts that we have concluded with the gas transportation companies in these countries. In August 2003, we also guaranteed a loan to ETG for U.S.\$227 million in order to facilitate the purchase in Central Asia of natural gas, which is then sold to us.

Our gas transport sales were RR28.2 billion and RR18.0 billion for the years ended December 31, 2003 and December 31, 2002, respectively. Most of the third-party natural gas we transported through the UGSS during this period was for ETG and Itera and was transported under U.S. dollar-denominated contracts. A significant portion of this gas was sourced from Central Asia, for which the tariffs are unregulated.

Tariffs charged to unaffiliated third parties for the transportation of natural gas through our trunk pipelines are established by the Federal Energy Commission, now the Federal Tariffs Service (“FTS”).

Tariffs charged to third parties from August 1, 2003 for the transport of natural gas produced in Russia are set forth below:

- RR16.56 (RR13.80 prior to August 1, 2003) per mcm per 100 km (not including VAT) for shipments to consumers located within the customs territory of the Russian Federation and the member states of the Customs Union Agreement (Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan); and
- U.S.\$0.92 per mcm per 100 km (not including VAT) to be paid in RR at the exchange rate of the Central Bank of the Russian Federation as of the date of payment for shipments to consumers located outside the customs territory of the Russian Federation and member states of the Customs Union Agreement.

Projects for the Development of the UGSS

SRTO-Torzhok Pipeline. We are planning to construct a gas pipeline from the Urengoi field, in the northern regions of the Tyumen Oblast (“SRTO”), to Torzhok, one of the junctions in our trunk pipeline system. This pipeline will become part of an operating multi-line gas transportation system and enhance our ability to export natural gas through the Yamal-Europe pipeline and to customers in the northwestern region of Russia. When completed, the pipeline will be 2,700 kilometers long and include 12 compressor stations with total power of 849 MW, connected with our existing production and transportation infrastructure. We plan to commission the pipeline in stages through 2007, and in 2003 we constructed 68.1 km of looping to our existing pipelines and started construction on three compressor stations. We estimate that construction this pipeline will require total investment of approximately RR264 billion, including RR38.9 billion in 2004.

Zapolyarnoye-Urengoi Pipeline. In order to ensure that we have adequate gas transportation capacity from the Zapolyarnoye field, we are constructing a three-line trunk gas pipeline with a total annual capacity of 100 bcm between Zapolyarnoye and Urengoi and the 288 MW Purtazovskaia compressor station. Two lines of this pipeline are already in operation, as well as 192 MW of capacity at the Purtazovskaia compressor station. We expect to complete the third line and bring the Purtazovskaia compressor station to full capacity by the end of 2004. We plan to invest RR5.9 billion in completing construction of this pipeline in 2004.

Pochinki-Izobilnoye-North Stavropolskoye Underground Gas Storage Pipeline. The natural gas pipeline from Pochinki to Izobilnoye and the North Stavropolskoye underground gas storage facility forms part of the Russia-Turkey natural gas pipeline system. This pipeline will enable us to deliver “clean” natural gas from the Nadym-Pur-Taz region through the Blue Stream pipeline instead of more chemically active natural gas from Central Asia. When completed, this pipeline will be 1,250 kilometers long and include eight compressor stations. The section of the pipeline from Frolovo to Izobilnoye and two compressor stations have already been commissioned, and it is planned to complete construction in 2005. We plan additional investment in this pipeline of RR4.5 billion in 2004.

International Projects and Alliances for Transportation

Blue Stream Project

In alliance with ENI, we have constructed a gas trunk pipeline from Russia under the Black Sea to Turkey. We estimate that annual volumes of natural gas exports along this pipeline will reach 16 bcm starting in 2010. The Italian engineering firm Saipem, partly owned by ENI, laid the undersea pipeline. Construction of the Blue Stream Project is now substantially complete, and commercial deliveries to Turkey commenced in February 2003.

The pipeline from Russia to Turkey is approximately 760 km long, of which about 390 km runs under the Black Sea. The onshore section of the Blue Stream Project is connected to the existing Gazprom pipeline network through a pipeline from Frolovo to Izobilnoye, which was commissioned in 1998.

In November 1998, we entered into a memorandum of understanding with ENI to participate on an equal basis in the Blue Stream Pipeline Company B.V., a special purpose vehicle for the construction, ownership and operation of a natural gas transportation system from Dzubga in Russia (including the nearby Beregovaya compressor station) to Samsun in Turkey (the “Offshore Section”). We and ENI each have a 50% stake in the Blue Stream Pipeline Company B.V., which receives transportation tariffs for the gas transported through the Offshore Section, and we and ENI share these proceeds in proportion to our respective ownership interests. This system is connected to our existing pipeline network through a new pipeline running from Izobilnoye to Beregovaya (the “Onshore Section”). The Onshore Section and the Offshore Section together constitute the Blue Stream Project.

The total construction cost of the Offshore and Onshore Sections of the Blue Stream Project was approximately U.S.\$3.3 billion. The value of the turnkey contract for the construction of the Offshore Section of the pipeline and the Beregovaya compressor station was approximately U.S.\$1.7 billion.

To arrange for our share of the third-party financing required for the Blue Stream Project, we and the Blue Stream Pipeline Company B.V. entered into three loan agreements secured by export receivables with consortia of western European and Japanese banks. The total amount of financing provided by these facilities is U.S.\$1.76 billion. For these facilities, we act as borrower and/or as guarantor for the Blue Stream Pipeline Company B.V. The financing also benefits from guarantees provided by the national

export credit agencies of the lending banks' respective countries. The remainder of the financing for the Offshore Section of the Blue Stream Project was covered by the contributions of Gazprom, SNAM (ENI's subsidiary) and a U.S.\$866 million loan provided to the Blue Stream Pipeline Company B.V. under the guarantee of SNAM. The remainder of the financing required for the Onshore Section of the Blue Stream Project was provided from our own resources, including a €250 million loan that we received in February 2001 from a consortium of international banks led by Bayerische Hypo-und Vereinsbank AG.

Deliveries through Blue Stream were temporarily halted from March to August 2003 on the basis of the contractual provisions for the initial delivery period. In November 2003, we resolved outstanding disagreements with Botas. Total deliveries of gas to Turkey through the Blue Stream pipeline in 2003 were 1.3 bcm, and we expect to deliver approximately 3 bcm through the Blue Stream pipeline in 2004.

Yamal-Europe Pipeline Project

We are proceeding with the Yamal-Europe project in order to continue to meet our contractual obligations to supply natural gas to Europe and to diversify our export routes. Connecting the Yamal-Europe pipeline to the existing natural gas transportation network in Germany allows for the full integration of this pipeline into the European gas network.

The Yamal-Europe pipelines are being constructed in such a way that it will be possible to utilize some of the segments and pumping station capacity in connection with existing gas transportation facilities as market demands require before the entire system comes on line.

During the first stage of development, the pipeline will transport natural gas from existing and new fields of the Nadym-Pur-Taz area of the Tyumen region. In the future, natural gas will be supplied from the Bovanenskoye field on the Yamal Peninsula.

The projected annual capacity for the first trunk pipeline is approximately 33 bcm. The section of the pipeline which extends 1,600 km from the Torzhok compressor station in Russia through Belarus and Poland, including four compressor stations, is currently in operation. This section of the pipeline connects with the STEGAL pipeline in Germany. The completed facilities account for approximately 60% of the pipeline's potential capacity. Gas supplies via the Yamal-Europe pipeline started on November 7, 1999. In 2003 and 2002, 21.0 bcm and 18.1 bcm of natural gas, respectively, were transported through the pipeline. The German section of the pipeline is owned by WINGAS, our joint venture with Wintershall. The Polish section is owned by EuRoPol GAZ S.A. ("EuRoPolGAZ"), a joint venture in which we participate with PGNiG S.A. (a 100% state-owned Polish gas company), and Gaztrading (a Polish gas company). We own the sections of the pipeline in Belarus and Russia.

We expect that construction of the three remaining compressor stations in Poland will be completed in 2005, further increasing the pipeline's capacity. Completing these compressor stations will require total investment of approximately U.S.\$300 million in 2004 and 2005. We also plan to complete the construction of compressor stations on the portion from Torzhok to the Polish border in 2005. We have planned capital investments of RR25.0 billion to complete construction of the portion of the pipeline from Torzhok to the Polish border in 2004 and 2005. Torzhok is a key pipeline junction north of Moscow where several of our trunk pipelines converge.

We are currently constructing a pipeline from the northern regions of the Tyumen Oblast to Torzhok pipeline, which will enable us to increase the reliability of deliveries of gas from the Nadym-Pur-Taz region to the Yamal-Europe pipeline as we bring on-stream the Yamal gas fields, as discussed above under "—Projects for the Development of the UGSS—SRTO—Torzhok Pipeline." We are deciding, based on demand for natural gas in western Europe and the economic efficiency of exporting gas in this manner, whether to construct a second Yamal-Europe trunk pipeline.

North European Pipeline Project

We are currently engaged in market research and planning for the North European pipeline project. Construction of this pipeline would help to diversify and to provide flexibility in our export gas routes; increase our capacity to supply gas to western Europe in order to fulfill long-term and future export contracts; and directly connect our gas transportation system in Russia with the gas transportation system in the EU.

The pipeline would have an annual capacity of about 20 bcm of natural gas and would run undersea for 1,189 km from Vyborg, Russia to Germany and then to The Netherlands and United Kingdom, either

through an additional offshore pipeline or along the current European gas pipeline network. We anticipate that realization of the project will take approximately four years. As the pipeline will run offshore directly from Russia to Germany, it will avoid the political and economic risks related to the reliability of transit deliveries through third countries. The anticipated total cost of constructing the North European pipeline is approximately U.S.\$5.7 billion, though this will depend on the specific route chosen. The EU has designated the project a high priority European project in the Trans-European Gas Network, which is expected to help us secure long-term financing for the project. Major oil and gas companies such as BP, Fortum, Gasunie, Royal Dutch/Shell, E.ON Ruhrgas, Total and Wintershall have expressed interest in participating in this project.

In January 2004 the Government of the Russian Federation instructed the Ministry of Energy of the Russian Federation to provide for preparation of the necessary documentation for the construction of the North European pipeline project with our participation. We are currently conducting negotiations with potential foreign partners, developing financing plans and engaging in other preparatory activities. We plan to make a decision about investment in the North European pipeline in the fourth quarter of 2004.

United Kingdom Interconnector Pipeline

In 1994, we acquired 10% of the capacity of the Interconnector pipeline, a pipeline connecting Belgium and the United Kingdom that allows for gas flow in both directions, as a result of our participation in Interconnector (UK) Limited. As a result of our 10% stake, our current annual capacities in the Interconnector pipeline are 2.0 bcm of natural gas from the United Kingdom to continental Europe and 0.85 bcm, increasing to 2.2 bcm from the end of 2005, of natural gas from continental Europe to the United Kingdom. In February 2004 we applied to participate in an additional expansion of the capacity in the flow from Europe to the United Kingdom. When this expansion is completed in December 2006, two additional compressor stations will increase the total capacity from Europe to the United Kingdom by 7 bcm annually, of which our share will be 2.7 bcm, bringing our total capacity in this direction to 4.9 bcm. By participating in the expansion, we will be committed to pay for the additional capacity allocated to us.

Our capacity in the Interconnector pipeline is operated under an agency agreement by our subsidiary Zarubezhgaz Management und Beteiligungsgesellschaft GmbH (“ZMB”), which leases our capacity to other parties. We also make use of our Interconnector pipeline capacity to engage in spot trading opportunities on European gas markets. See “—Marketing—Europe—Western Europe.”

West-East Project in China

On July 4, 2002, together with Shell and ExxonMobil, we signed a framework agreement with Petro China on creating a joint venture on the West-East pipeline project across China. The project envisages the production of natural gas in the Sintszyan-Uigur region in China, the construction of a pipeline of approximately 4,000 km in length to Shanghai and the sale of gas in the eastern Chinese market. The first stage of this project would provide for the production and transport of approximately 12 bcm of natural gas annually.

Negotiations on the terms of the joint venture for the construction and operation of the pipeline as well as on the conclusion of gas production sharing agreements and on the establishment of a unified trading company that will be responsible for gas sales to consumers have been suspended since early 2004 due to concerns in China about the marketing to end users of gas transported through the pipeline.

Ukraine Gas Transportation System

In October 2002, the Russian and Ukrainian governments concluded an agreement on strategic cooperation in the gas industry that provided for the creation of an international consortium to improve the reliability, security and stability of the Ukrainian gas transport system; to make more efficient use of existing gas transportation and storage capacity in Ukraine; and to invest in the modernization and growth of the Ukrainian gas transportation system. Pursuant to this agreement, we entered into an agreement in October 2002 with Naftogaz Ukrainy to create a joint company to pursue these objectives. Following initial technical analysis, the parties determined that the initial project would be constructing a new pipeline from Bogorodchany to Uzhgorod. We are now preparing the necessary documentation in order to implement this project.

Transbalkan Pipeline Project

To increase natural gas supplies to the Balkan states, we have worked in association with various national companies on the expansion and modernization of the existing pipeline network in Ukraine, Romania and Bulgaria.

Gastransit, a joint Russian-Ukrainian-Turkish venture in which we have a 37% direct stake and an indirect stake through our 45% interest in Turusgaz, has implemented a program to expand transit capacity within Ukraine. The first stage, a compressor station at Tarutino within the operating transit gas pipeline Ananiev-Tiraspol-Izmail was put into operation in 2001. The compressor station was constructed with the use of an EBRD loan and equity funds of shareholders (including Gazprom funds in the amount of U.S.\$9.62 million). The second phase, consisting of loopings within the Ananiev-Tiraspol-Izmail gas pipeline, was constructed with the use of an additional EBRD loan and, subordinated to it, loans from Gastransit shareholders (including Gazprom funds in the amount of U.S.\$8.1 million). The construction and expansion of transit capacities within Bulgaria and Romania has also been completed. The construction was carried out with Romanian and Bulgarian funds and a commodities credit from Gazprom.

This project has increased the throughput of the pipelines at the border with Turkey to up to 14 bcm per year to help ensure our contractual volumes of supply of Russian gas to the Balkan countries and Turkey.

Cooperation with Wintershall

In 1990, we entered into a long-term cooperation agreement with Wintershall, on the basis of which WINGAS was organized in 1993. We hold a 35% stake in WINGAS, and Wintershall holds a 65% stake. WINGAS has participated in the construction of and owns the following system of trunk pipelines:

STEGAL Pipeline. The STEGAL gas pipeline was completed in 1992. The pipeline is 323 km long and has a design capacity of 12 bcm per year. It passes through Germany and connects the MIDAL gas pipeline with the Czech natural gas pipeline system.

MIDAL Pipeline. Built in 1993, the MIDAL Pipeline has a total length of 642 km. Its capacity is 13 bcm per year. It goes through the territory of Germany and connects a natural gas storage facility at Emden (on the border with The Netherlands) with a BASF chemical plant in Ludwigshafen.

WEDAL Pipeline. The 314 km WEDAL pipeline became operational at the end of 1998, linking the WINGAS pipeline network with the Belgian pipeline system and the Interconnector pipeline. Initially, the WEDAL pipeline was designed to transport gas produced in the United Kingdom under contracts between WINGAS, British Gas and Conoco and to provide WINGAS with a secure supply of gas from diverse transportation sources. Gas supplies from continental Europe to the United Kingdom may also be carried through the Interconnector pipeline.

YAGAL Pipeline. At the end of 1999, the 340 km YAGAL pipeline, with a design capacity of 29 bcm per year, was put into operation. This pipeline connects the Yamal-Europe pipeline with the STEGAL pipeline. The completion of this pipeline enabled us to expand our supplies of natural gas to European countries and improved the reliability and flexibility of supplies of Russian natural gas to the European market.

Central Asia

We have concluded long-term strategic cooperation agreements with respect to purchases of natural gas in Central Asia. See “—Reserves and Production—Projects and Alliances in Reserves and Production—Central Asia.” In addition, we are considering joint projects to assess, modernize and increase the gas transport capacity in the region and to promote cooperation in gas transportation between Russia, Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan.

The gas transportation system “Central Asia—Center” connects Turkmenistan, Uzbekistan, Kazakhstan and Russia. It currently has an annual capacity of approximately 50 bcm, below its design capacity of approximately 68.8 bcm annually. Additional investment in repairs and modernization is required to increase throughput from the current level. We have conducted a feasibility study for further investment in this system in order to increase annual throughput to 90 bcm, and in 2004 we plan to analyze instrumentation and control data. We are also considering possibilities for the extension of the “Central Asia—Center” pipeline system, both along the existing corridor through Uzbekistan and by bypassing Uzbekistan. One scenario that would increase annual capacity to 80 bcm along the existing corridor would require total investment of U.S.\$3 billion, approximately one-third for rebuilding the existing system and two-thirds for new construction. We are currently planning for our participation in this project on both a bilateral and multilateral basis.

Our 2004 investment program provides for RR500 million of investment in developing the “Central Asia—Center” in Uzbekistan, and we are considering the appropriate use of these funds. We also expect

to make a further assessment of investment in the transportation infrastructure in Turkmenistan in late 2004, after we receive the results of an independent evaluation of natural gas reserves that is being conducted in Turkmenistan.

Refining

Our refining operations consist of the operations of our six principal wholly-owned refining facilities and additional refining capacity held by various other subsidiaries, including our majority-owned subsidiary Sibur.

Our refining facilities process natural gas for pipeline transportation, stabilize gas condensate and refine natural gas, gas condensate and crude oil into refined products. Our six integrated refineries conduct processing, stabilizing and refining of natural gas, gas condensate and crude oil in order to remove hazardous and corrosive substances from natural gas and unstable gas condensate and produce a broad range of products. In the year ended December 31, 2003, excluding Sibur we processed and refined 39.7 bcm of natural gas and 17.2 million tons (125.7 mmbbls) of unstable gas condensate and crude oil, for a total of 359.4 mmboe, as compared to 39.3 bcm of natural gas and 16.9 million tons (123.9 mmbbls) of gas condensate and crude oil, for a total of 355.2 mmboe, in the year ended December 31, 2002. Of these totals, our own production accounted for 33.7 bcm of natural gas and 10.2 million tons (74.7 mmbbls) of gas condensate and crude oil, for a total of 273.0 mmboe, in the year ended December 31, 2003 and 34.1 bcm of natural gas and 10.0 million tons (73.1 mmbbls) of gas condensate and crude oil, for a total of 273.9 mmboe, in the year ended December 31, 2002.

Our total annual processing and refining capacity, excluding Sibur, as of December 31, 2003 was 51.0 bcm of natural gas and 20.8 million tons (152.5 mmbbls) of gas condensate and crude oil, as compared to 49.5 bcm of natural gas and 20.8 million tons (152.5 mmbbls) of gas condensate and crude oil as of December 31, 2002. We sell the resulting refined products domestically and in the FSU and Europe.

We operate our refining segment through Astrakhangazprom, Kubangazprom, Orenburggazprom, Severgazprom, Surgutgazprom and Urengoigazprom, which are wholly-owned subsidiaries that combine refining with either production or transportation, as well as our majority-owned subsidiaries Sibur and Vostokgazprom. As of January 1, 2003, we centralized the operations of our refining segment, excluding Sibur. We discontinued the practice of selling our raw products to and then purchasing refined products from the refineries in favor of tolling arrangements with our refineries according to which we pay for refining and processing services of raw materials that we have purchased from our production subsidiaries and transported to the refining facilities. We expect that these changes will result in considerable tax savings and the centralization of our cash flows.

Our natural gas and gas condensate refineries are sophisticated plants that combine chemical and refining facilities. Each of our refineries is directly linked to gas or gas condensate fields, and among their principal functions is to process natural gas and gas condensate produced at our fields for transportation via our trunk pipelines. Our refineries produce such products as dry market-grade natural gas, stabilized gas condensate, liquified natural gas, technical carbon, diesel fuel and motor gasoline from natural gas and gas condensate. Some of our plants have implemented unique technologies for treating natural gas with a high sulfur content (for example, the Astrakhan plant treats natural gas with hydrogen sulfide content of 15-25%), and produce odorants, technical carbon and gaseous and liquified helium.

We plan to increase our processing of gas condensate and crude oil and more fully to utilize our excess processing and refining capacity, both through our majority-owned subsidiary Sibur and by partnering with western oil companies to further develop certain of our gas condensate fields. See “—Reserves and Production—Projects and Alliances in Reserves and Production.” We also plan to increase the depth of our refining activities. For example, we plan to increase our annual production of automobile gasoline and jet fuel at our wholly-owned facilities to 2.6 million tons and 240,000 tons, respectively, by 2006.

From 2004 through 2006, we plan to invest approximately RR11.6 billion to reconstruct and refurbish equipment at our wholly-owned natural gas and gas condensate refineries. We intend to increase the amount of gas condensate and crude oil we refine in western Siberia from approximately 6 million tons (44.0 mmbbls) in 2003 to 11.0 million tons (80.6 mmbbls) per year starting from 2007. We also anticipate increasing our initial processing of gas condensate and crude oil to 7.5 million tons (55.0 mmbbls) per year from 2007.

The following table sets forth total hydrocarbon feedstock input at our refining facilities, excluding Sibur's, for the periods indicated. Unstable gas condensate and oil that has been processed may be further refined in one or more stages.

	For the three months ended March 31,		For the year ended December 31,		
	2004	2003	2003	2002	2001
Natural gas (bcm)	10.2	10.2	39.7	39.3	38.7
of which third-party product	2.0	1.5	6.0	5.2	4.0
Unstable gas condensate and crude oil (thousand tons)	4,562.4	4,357.7	17,154.6	16,905.7	14,555.0
of which third-party product	1,729.3	1,801.3	6,965.8	6,926.6	4,561.8
Stabilized gas condensate and crude oil (thousand tons) ⁽¹⁾	1,701.3	1,704.0	6,410.8	6,193.1	5,348.1
of which third-party product ⁽¹⁾	87.5	334.0	1,108.4	966.7	382.3

Note:

(1) Some of this gas condensate and crude oil constitutes unstable gas condensate and crude oil that has been processed from unstable gas condensate and crude oil by us or by other parties.

The following table sets forth the production of our refining facilities, excluding Sibur's, for the periods indicated.

	For the three months ended March 31,		For the year ended December 31,		
	2004	2003	2003	2002	2001
Dry natural gas (bcm)	8.1	8.1	31.4	31.5	31.3
of which from third-party inputs	1.8	1.4	5.4	4.7	3.5
Sulphur (thousand tons)	1,374.3	1,404.7	5,478.3	5,304.5	4,964.7
of which from third-party inputs	119.6	95.4	366.0	328.5	270.3
Stable condensate and oil (thousand tons) .	3,677.0	3,581.3	13,119.2	13,001.3	10,715.7
of which from third-party inputs	1,574.9	1,697.6	5,785.0	6,063.1	4,032.4
Gasoline (thousand tons)	527.8	505.4	1,842.0	1,400.1	1,216.0
of which from third-party inputs	—	—	—	—	0.2
Diesel fuel (thousand tons)	501.3	483.0	1,771.9	1,804.3	1,631.7
of which from third-party inputs	23.7	70.1	229.2	235.0	14.4
Furnace fuel oil (thousand tons)	110.7	100.3	390.6	374.1	384.6
of which from third-party inputs	—	—	—	—	0.2
Wide liquid fractions (thousand tons)	237.4	—	263.2	87.1	44.9
of which from third-party inputs	181.0	45.4	226.7	50.9	14.1
Helium (mcm) ⁽¹⁾	1,333.2	1,700.5	6,473.7	6,291.3	5,335.7
Ethane (thousand tons)	102.6	81.3	322.9	326.5	315.6
of which from third-party inputs	9.2	9.8	39.3	36.3	29.7
Odorant (tons) ⁽¹⁾	800.0	800.0	3,010.0	2,750.8	3,411.3
Technical carbon (thousand tons) ⁽¹⁾	8.0	7.0	32.1	28.5	29.4
Liquified gas (thousand tons)	575.2	677.4	2,647.9	2,416.8	2,300.6
of which from third-party inputs	75.4	144.4	566.3	481.2	189.5
Stabilized gas (mmcm)	95.4	92.9	301.4	428.0	389.3
of which from third-party inputs	41.3	30.9	107.1	97.1	50.4
Fractions of multiple component hydrocarbons (thousand tons)	55.7	77.1	240.0	257.3	234.0
of which from third-party inputs	19.8	14.9	44.4	53.4	71.9
Methanol (thousand tons) ⁽¹⁾	210.8	185.5	753.0	333.2	—

Note:

(1) All production from our own feedstock.

The following are our major refineries:

Astrakhan Gas Refinery. This refinery is operated by our subsidiary Astrakhangazprom. It is an integrated refinery, the first stage of which came on-stream in 1986 and the second in 1997. The Astrakhan Gas Refinery processes natural gas and gas condensate with a high sulfur content extracted from the Astrakhan gas condensate field and it receives all of its feedstock from this field. The plant comprises two lines, with a total annual capacity of 12.0 bcm of natural gas and an annual gas condensate stabilization capacity of 7.3 million tons (53.5 mmbls). In 2003, the refinery processed 11.4 bcm of natural gas and 4.0 million tons (29.3 mmbls) of unstable gas condensate, as compared to 10.9 bcm of natural gas and 3.8 million tons (27.9 mmbls) of unstable gas condensate in 2002. All of the raw material inputs in these periods consisted of our own production. The refinery's products include dry market-grade natural gas

that is delivered to trunk pipelines; natural gas-derived sulfur; motor gasoline; diesel fuel; furnace fuel oil; and industrial-grade propane/butane mixture. As part of our strategy to deepen our feedstock processing, we plan to build polyethylene production facilities that will enhance the overall efficiency of the Astrakhan refinery. We plan to invest RR7.3 billion from 2004 through 2006 to develop and overhaul this refinery.

Orenburg Gas Refinery and Orenburg Helium Plant. Our Orenburg gas chemical complex consists of two facilities, the Orenburg Gas Refinery and the Orenburg Helium Plant, both of which are operated by our subsidiary Orenburggazprom.

The Orenburg Gas Refinery processes natural gas and gas condensate with a high sulfur content. The first stage of this plant became operational in 1974, the second in 1977 and the third in 1978. The refinery has an annual capacity of 37.5 bcm of natural gas and a capacity of 6.2 million tons (45.4 mmbbls) of gas condensate per year. The refinery's products include dry market-grade natural gas; stabilized gas condensate; liquified gas; multi-component hydrocarbon distillate (MHD); natural gas-derived sulfur; and odorants.

The Orenburg Helium Plant is one of Russia's largest producers of helium. The first stage of the plant became operational in 1978, the second in 1979 and the third in 1981. The facility has an annual capacity of 15 bcm of natural gas. The Orenburg Helium Plant conducts further refining of the output of the Orenburg Gas Refinery. The plant's products include dry market-grade natural gas; gaseous and liquified helium; ethane; multi-component hydrocarbon distillate (MHD); and liquified gas.

In 2003, the Orenburg gas chemical complex processed a total of 26.1 bcm of natural gas and 5.4 million tons (39.6 mmbbls) of unstable gas condensate and crude oil, as compared to 26.7 bcm of natural gas and 6.0 million tons (44.0 mmbbls) of unstable gas condensate and crude oil in 2002. Our production accounted for 20.1 bcm of natural gas and 0.5 million tons (3.7 mmbbls) of unstable gas condensate and crude oil input in 2003, and 21.5 bcm of natural gas and 0.5 million tons (3.7 mmbbls) of unstable gas condensate and crude oil in 2002. The balance of the natural gas supplied to the complex is primarily from the Karachaganak field in Kazakhstan. See "—Projects and Alliances in Refining—Karachaganak Gas Processing." We plan to invest RR1.6 billion from 2004 through 2006 in developing and refurbishing this processing complex.

Sosnogorskysky Gas Refinery. This refinery is operated by our subsidiary Severgazprom. It came on-stream in 1946 and has an annual capacity of 1.5 bcm of natural gas and 1.25 million tons (9.2 mmbbls) of unstable gas condensate per year. In 2003, the refinery processed 1.4 bcm of natural gas and 0.3 million tons (2.4 mmbbls) of unstabilized gas condensate and crude oil, as compared to 1.4 bcm of natural gas and 0.4 million tons (2.9 mmbbls) of unstable gas condensate and crude oil in 2002. All of the raw material inputs in these periods consisted of our own production. The refinery's products include dry market-grade natural gas; liquified gas; stabilized gas condensate; motor gasoline; and technical carbon. From 2000 through 2003, the refinery was refurbished both with internally generated funds from Severgazprom and with borrowings of 108 million, which were used for the reconstruction of the refinery's gas refining facilities. We plan to invest RR500 million from 2004 through 2006 to reconstruct the refinery's facilities. In 2004 we plan to commission additional refining capacity of 1.5 bcm of natural gas per year and to significantly increase the depth of feedstock processing and the percentage of liquified gas, such as propane and butane, that we can extract from natural gas.

Urengoi Condensate Preparation Plant and Surgut Condensate Stabilization Plant. Our western Siberian processing and refining complex consists of two facilities, the Urengoi Condensate Preparation Plant and the Surgut Condensate Stabilization Plant.

The Urengoi Condensate Preparation Plant is operated by our subsidiary Urengoi-gazprom. The first stage of this plant came on-stream in 1985 and the second in 2001. The plant's main function is to prepare condensate for transportation to the Surgut Condensate Stabilization Plant. With the completion of the second stage, the plant now has an annual capacity of 12 million tons (88.0 mmbbls) of unstable gas condensate. The plant had a throughput of 6.0 million tons (44.0 mmbbls) of unstable gas condensate in 2003, as compared to 5.7 million tons (41.8 mmbbls) in 2002. In 2003, 4.9 million tons (35.9 mmbbls) of the throughput consisted of our own production, unchanged from 2002. The plant's products include de-ethanized gas condensate (which is used as feedstock for the Surgut Condensate Stabilization Plant); motor gasoline; diesel fuel; liquified gas; and stabilized condensate. We have budgeted investments of RR800 million from 2004 through 2006 to overhaul the facility.

The Surgut Condensate Stabilization Plant is operated by our subsidiary Surgut-gazprom. It processes a crude oil and gas condensate mixture produced from the western Siberian fields and came on-stream in

1985. It has an annual capacity of approximately 8 million tons (58.6 mmbbls) of de-ethanized condensate. In 2003, the plant processed 5.7 million tons (41.8 mmbbls) of gas condensate and crude oil, as compared to 5.1 million tons (37.4 mmbbls) in 2002. In 2003, 3.8 million tons (27.9 mmbbls) of the volumes processed consisted of our own production, as compared to 3.7 million tons (27.1 mmbbls) in 2002. The refinery's products include stabilized condensate; motor gasoline; and diesel fuel; liquified gases; and pentane-hexane fraction.

A bottleneck may occur at the Surgut Condensate Stabilization Plant in the next several years as more independent producers utilize the Surgut Condensate Stabilization Plant, which has relatively less additional capacity than does the Urengoi Condensate Preparation Plant that provides it with feedstock. To mitigate this risk, we have budgeted investment expenditures of RR1.4 billion from 2004 through 2006 to further develop the capacity of the Surgut Condensate Stabilization Plant.

Other facilities. Our subsidiaries Kubangazprom and Vostokgazprom also operate small facilities that refine gas condensate into motor oil, and Vostokgazprom refines natural gas into methanol through a refinery held by its subsidiary ZAO Metanol, of which it owns 78%.

Sibur

Sibur is one of the leading Russian petrochemicals companies. According to Sibur's management estimates, Sibur accounted for 48% of the production of synthetic rubber, 47% of the production of tires, 18% of the production of polyethylene, 35% of the production of polypropylene and 31% of the production of liquified gases in Russia in 2003. Sibur's output is used in the production of plastics, high-octane gasoline and other products in the automotive, agricultural, construction and aerospace industries.

We currently control 92.3% of the voting shares of Sibur. We initially acquired 50.7% of the voting shares of Sibur in January 2001, gained control of an additional 25% in April 2003 by establishing control over a number of petrochemicals companies, some of which held interests in Sibur. We acquired a further 2.4% in September 2003 and 14.2% in April 2004, and we are currently in the process of increasing our interest in Sibur to 99.9%. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Acquisitions and Dispositions—Recent Developments."

In early 2002, as a result of bankruptcy proceedings initiated by us, a Russian court imposed external management over Sibur. The imposition of external management contributed to the decline in Sibur's production in 2002. In September 2002, Sibur reached an amicable settlement agreement with its creditors which was subsequently approved by a court, and Sibur emerged from bankruptcy. Under the settlement agreement, Sibur's debts were restructured, with repayment to occur over a period of eight years starting in 2004. The present value of this restructured debt as of December 31, 2003 was RR2.3 billion.

Sibur organizes its refining activities in several technological stages, at each stage supplying petrochemical enterprises (primarily its subsidiaries) with feedstock for processing and receiving in return finished products. After each stage a portion of the product is sold to consumers, while the remainder is retained for further refining.

We supply approximately half of Sibur's hydrocarbon feedstock. The following table sets forth total hydrocarbon feedstock input at Sibur for the periods indicated.

	For the three months ended March 31,		For the year ended December 31,		
	2004	2003	2003	2002	2001
	(thousand tons)				
Wide hydrocarbon fractions and liquified gas.....	983	869	3,572	2,842	3,482
Oil and gas condensate.....	10	62	89	251	1,348
Gasoline fractions	206	194	857	566	674
Other raw materials.....	118	87	440	237	113
Total.....	<u>1,317</u>	<u>1,212</u>	<u>4,958</u>	<u>3,896</u>	<u>5,617</u>

The following table sets forth Sibur's total production for the periods indicated.

	For the three months ended March 31,		For the year ended December 31,		
	2004	2003	2003	2002	2001
	(thousand tons, unless otherwise indicated)				
Liquified gases	699	608	2,481	1,667	2,130
Monomers and monomer fractions.....	485	440	1,788	1,106	899
Synthetic rubber.....	157	123	519	314	464
Polymers	118	95	370	220	359
Products of organic synthesis.....	203	164	660	332	538
Fuel and components	119	89	405	408	911
Tires (thousands of units).....	4,262	4,053	17,578	3,394	15,458

Sibur sells its production in Russia and abroad, in particular to China, Finland and the Baltic states. We are evaluating the Chinese market for petrochemical products, as the management of Sibur considers this market to present significant opportunities based on the current rate of economic growth in China and the increasing demand for petrochemical products. Exports to China account for a substantial portion of Sibur's total exports. Sibur's principal exports to China are synthetic rubber, polymer products, spirits (included in the table above under "products of organic synthesis") and methyl-tert-butyl-ether (included in the table above under "fuel and components").

We plan to restructure Sibur to create a vertically integrated refining company that will engage in the full cycle of liquid hydrocarbon processing and manufacturing, ranging from initial processing of hydrocarbons to the production of complex refined petroleum products such as tire rubber. Through 2010, we intend to focus on restructuring the indebtedness of Sibur, improving Sibur's financial management and investing in Sibur's production facilities, many of which require renovation. We are currently working with Sibur on preparing an agreement on restructuring its remaining debt to us, which we expect will occur on terms similar to those agreed in September 2002. Sibur has planned capital investments of RR8.4 billion in 2004 to modernize and expand its production facilities.

Projects and Alliances in Refining

Karachaganak Gas Processing. KazRosGaz, in which we hold a 50% stake, currently purchases up to 7 bcm annually of natural gas produced at the Karachaganak field in Kazakhstan from the field operator, Karachaganak Petroleum Operating. We process this gas at our Orenburg Gas Refinery and sell it in Kazakhstan and elsewhere. In our role as a shareholder in KazRosGaz, we and Karachaganak Petroleum Operating are discussing a long-term agreement on delivery of up to 7.5 bcm of natural gas produced at Karachaganak to the Orenburg Gas Refinery starting from 2005, with the possibility for further increases in volume. Securing these supplies of gas to the Orenburg Gas Refinery will enable us to modernize the facility and to increase its capacity.

Novy Urengoi Chemical Complex. The technical plan for the Novy Urengoi Chemical Complex was designed in cooperation with Salzgitter Anlagenbau and Linde, with some participation by BASF. Most of the equipment necessary to build the Novy Urengoi Chemical Complex in western Siberia was delivered in 1997. The Novy Urengoi Chemical Complex, which is not yet operational, is designed to process 1.62 million tons of de-ethanized natural gas per year, yielding 340,000 tons of ethylene to be used as feedstock for 300,000 tons of high pressure polyethylene, and is also designed to produce annually up to 280,000 tons of long distillate of light hydrocarbons, as well as up to 920,000 tons of methane gas. We are currently examining the possibility of completing this project on a project finance basis.

Volodino Refinery. Vostokgazprom plans to construct a refinery in Volodino starting in 2004, and which is expected to become operational in 2007. The planned capacity for refining natural gas is 6 bcm, and it is expected to produce dry gas, liquified gas and ethane fractions. Vostokgazprom plans investment of RR7.1 billion in constructing this facility.

Marketing

We are the world's largest exporter of natural gas. We export natural gas (as well as gas condensate, crude oil, oil products, liquified oil gas and other refined) through our wholly-owned subsidiary, Gazexport. We also sell these products domestically to end consumers, including sales of natural gas

through Mezhtregiongaz and our regional trade houses. In 2003, our sales of natural gas to Europe net of VAT and customs duties were RR422,316 million; our sales of natural gas to the FSU net of VAT and customs duties were RR44,049 million; and our sales of natural gas in Russia net of excise tax and VAT were RR186,650 million.

We are currently the only supplier of Russian natural gas to Europe. Our exports to Europe accounted for approximately 29.2% of the volume of natural gas we sold and 64.7% of our natural gas net sales revenues in 2003, and for 27.4% of the volume of natural gas we sold and for 63.3% of our natural gas net sales revenues in 2002. We supplied 20% of the volume of natural gas consumed in western Europe and 62% of the volume of natural gas consumed in central and eastern Europe in 2003 according to CEDIGAZ, "The 2003 Natural Gas Year in Review—CEDIGAZ First Estimates" (April 2004). Our sales to Europe in 2003 totaled 144.7 bcm, and Germany, Italy, Turkey and France are our largest export markets in Europe. We are actively seeking to increase our European export efficiency and have entered into various joint ventures abroad, such as WINGAS in Germany and Gasum in Finland. See "—International Projects and Alliances in Marketing." These joint ventures allow us to capture a margin from sales further downstream in the markets we serve in addition to receiving export proceeds from deliveries at the borders of the markets we serve.

In 2003, we sold approximately 308.2 bcm of natural gas, constituting substantially all of the natural gas consumed, in Russia, and 42.6 bcm of natural gas — constituting a significant proportion of the volume of natural gas consumed in six of the FSU countries to which we export our natural gas, Belarus, Estonia, Latvia, Lithuania, Moldova and Ukraine. Ukraine and Belarus are the largest consumers of the volumes of natural gas we supply to the FSU.

The following table sets out by volume our natural gas sales by geographical market for the periods indicated:

Gas Sales	For the year ended December 31,		
	2003	2002	2001
		(bcm)	
Russia	308.2	298.0	300.8
FSU	42.6	42.6	39.6
Europe	144.7	128.6	127.0
Total	495.5	469.2	467.4

The Natural Gas Market

Natural gas is gaining an increasing share of the world energy market, in part because it is an effective and environmentally clean fuel. According to the BP Statistical Review of World Energy (June 2004) (the "BP Review"), natural gas consumption, as a percentage of energy consumption in western Europe, has increased in recent years and is expected to continue to increase. This is primarily due to the growth in natural gas-fired power generating capacity, an increase in the use of natural gas for residential consumption (particularly in central and eastern Europe), a decline in the attractiveness of nuclear power, and environmental considerations (which have reduced the attractiveness of fuels such as coal). In 2003, natural gas consumption accounted for approximately 23.7% of primary energy consumption in western Europe and approximately 24.0% in central and eastern Europe.

The following table sets forth primary energy and natural gas consumption in our principal markets for 1993, 1998 and 2003 as well as the percentage of natural gas consumed as a proportion of primary energy consumption in such markets for such years:

	2003	1998	1993
	(mtoe, except percentages)		
Western Europe⁽¹⁾			
Primary energy consumption ⁽²⁾	1,642.4	1,574.5	1,466.5
Gas consumption	388.9	328.8	261.2
Gas consumption as a percentage of primary energy consumption	23.7%	20.9%	17.8%
Central and Eastern Europe⁽³⁾			
Primary energy consumption ⁽²⁾	236.6	237.4	245.1
Gas consumption	56.7	52.6	52.5

	<u>2003</u>	<u>1998</u>	<u>1993</u>
	(mtoe, except percentages)		
Gas consumption as a percentage of primary energy consumption.....	<u>24.0%</u>	<u>22.2%</u>	<u>21.4%</u>
FSU (except Russia)⁽⁴⁾			
Primary energy consumption ⁽²⁾	293.9	280.9	363.3
Gas consumption.....	152.6	140.2	163.6
Gas consumption as a percentage of primary energy consumption.....	<u>51.9%</u>	<u>49.9%</u>	<u>45.0%</u>
Russia			
Primary energy consumption ⁽²⁾	670.8	611.4	770.4
Gas consumption.....	365.2	328.3	374.4
Gas consumption as a percentage of primary energy consumption.....	<u>54.4%</u>	<u>53.7%</u>	<u>48.6%</u>

Source: BP Statistical Review of World Energy (June 2004).

Notes:

- (1) Defined for the purposes of this table to consist of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Luxembourg, Republic of Ireland, Italy, The Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey and the United Kingdom.
- (2) Primary energy consumption comprises commercially traded fuels only.
- (3) Defined for the purposes of this table to consist of Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia.
- (4) Defined for the purposes of this table to consist of Azerbaijan, Belarus, Kazakhstan, Lithuania, Turkmenistan, Ukraine and Uzbekistan.

According to the BP Review, natural gas consumption in western Europe represented 16.7% of worldwide natural gas consumption in 2003 (14.0% in 1993). In the period from 1993 through 2003, the proportion of natural gas in primary energy consumption in western Europe rose from 17.8% to 23.7%.

Europe

Our exports to Europe accounted for approximately 29.2% of the volume of natural gas we sold in 2003 and for 64.7% of our natural gas net sales revenues in 2003. In 2003, we sold 144.7 bcm of natural gas to Europe (128.6 bcm in 2002).

We export natural gas to Europe mostly pursuant to long-term contracts, which generally include the following terms:

- price-setting mechanisms that are based on prices for competing forms of energy such as oil products and, to some extent, coal;
- price adjustment clauses pursuant to which the formulae for determining the price of natural gas under the contracts can be reviewed once every three years if market conditions have changed;
- clauses that prevent unilateral termination except in instances of prolonged force majeure;
- extension clauses which provide for the automatic extension of the contract upon expiration unless one of the parties objects; and
- “take-or-pay” provisions that provide that (i) off-takers who have purchased less than the minimum contracted-for annual volume of natural gas at year’s end are required to pay for some portion (but generally not all) of the shortfall and (ii) such payment is credited to the off-taker if, in a subsequent year, the off-taker purchases more than the minimum contracted-for volume of natural gas.

We are paid in U.S. dollars and euro for the natural gas we sell in western Europe. Currently, between 40% and 45% of our European net sales are denominated in euro.

Certain of our contracts contain “destination clauses” that prohibit the re-export of natural gas that is purchased from us by the importer. We received a request for information from the European Commission with respect to this clause in our contract with an Italian off-taker, under which the Italian

off-taker was prevented from re-exporting gas that it purchases from us. During the course of consultations with us, the European Commission recognized the need to find economic alternatives to destination clauses that are viable for suppliers of natural gas. We have, for example, found such a solution with Eni and OMV, and are negotiating alternatives with another off-taker. We will also not include such clauses in new contracts.

During the next nine years, beginning mainly in 2008, export contracts accounting for almost one third of the volume of natural gas we currently export to Europe will expire. More than half of these volumes are under contracts that will expire in 2012.

We believe that our contracts that are scheduled to expire will be renewed. We are currently negotiating for the extension of long-term contracts that expire after 2008 with, among others, Gasum, E.ON Ruhrgas, Wingas and Wintershall Erdgas Handelshaus (“WIEH,” a joint venture with Wintershall). These contracts relate to aggregate minimum natural gas volumes of approximately 22 bcm per year. Our new contracts will not contain destination clauses. See “—Western Europe.”

Western Europe

The following table sets out our natural gas export volumes to western European countries for the periods indicated:

<u>Country</u>	<u>For the three months ended March 31,</u>		<u>For the year ended December 31,</u>		
	<u>2004⁽¹⁾</u>	<u>2003⁽¹⁾</u>	<u>2003⁽¹⁾</u>	<u>2002⁽¹⁾</u>	<u>2001⁽¹⁾</u>
			(bcm)		
Austria	1.6	1.5	6.0	5.2	4.9
Finland	1.6	1.6	5.1	4.6	4.6
France	3.6	3.2	11.2	11.4	11.2
Germany	9.4	8.0	29.6	31.5	32.6
Greece	0.6	0.3	1.9	1.6	1.5
Italy	6.2	6.0	19.7	19.3	20.2
Switzerland	0.1	0.1	0.3	0.3	0.3
The Netherlands	0.4	0.3	2.3	1.4	0.1
Turkey	<u>4.1</u>	<u>3.9</u>	<u>12.9</u>	<u>11.8</u>	<u>11.1</u>
Total⁽²⁾	<u>27.6</u>	<u>24.9</u>	<u>89.0</u>	<u>87.1</u>	<u>86.6</u>

Notes:

- (1) Management estimates. The information in this table does not include natural gas volumes that are purchased and then resold by some Gazexport subsidiaries, primarily ZGG. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Year ended December 31, 2003 versus year ended December 31, 2002—Operating expenses—Transit costs.”
- (2) Totals may not add due to rounding.

We have delivered natural gas to western Europe since the late 1960s, providing us with a significant amount of commercial experience in the region. Acting through Gazexport, we supply natural gas to our western European customers on the basis of long-term contracts, the initial terms of which are generally 20 years or longer. Outstanding long-term supply contracts with major western European customers have remaining terms of between four and 19 years.

Currently, our principal western European customers are E.ON Ruhrgas (Germany), Eni (Italy), Gaz de France (France), Botas (Turkey), OMV (Austria) and our joint ventures in Germany, WINGAS, in which we have a 35% stake, and WIEH, in which we have a 50% stake.

One of our fastest growing export markets in recent years has been Turkey. While domestic economic difficulties have recently reduced Turkish demand below predictions, we still believe that the Turkish gas market has significant long-term growth potential. According to statistics compiled by Botas, Turkey's state-owned gas company, natural gas consumption in Turkey amounted to approximately 21.2 bcm in 2003, of which our exports accounted for 12.9 bcm, or 60.8%, compared to consumption of approximately 17.6 bcm in 2002 and 16.4 bcm in 2001, of which our exports accounted for 11.8 and 11.1 bcm, or 67.0% and 67.7%, respectively. Our natural gas exports to Turkey are delivered via the Transbalkan Pipeline through Ukraine, Romania and Bulgaria and the Blue Stream pipeline under the Black Sea that links Russia directly with the Turkish market. Deliveries through Blue Stream were temporarily halted from March to August 2003 on the basis of the contractual provisions for the initial delivery period. In November 2003, we resolved outstanding disagreements with Botas. Total deliveries of gas to Turkey through the Blue Stream pipeline in 2003 were 1.3 bcm, and we expect to deliver approximately 3 bcm through the Blue Stream pipeline in 2004. See "Transportation—International Projects and Alliances for Transportation—Blue Stream Project."

Since 1998, we have negotiated a number of agreements, some of which extended our existing contracts, including contracts with: E.ON Ruhrgas, under which we have a maximum annual delivery obligation of 22.6 bcm annually through 2008, falling to 17.2 bcm annually through 2020, and with whom we have entered into an additional contract for possible further deliveries of 1.5 bcm through 2010; Gaz de France, under which we have a maximum annual delivery obligation of 8.0 bcm annually through 2015; Gasunie, under which we will have a maximum annual delivery obligation of 4.0 bcm during its plateau period through 2021; and WINGAS, under which we will have a maximum annual delivery obligation of 4.0 bcm through 2023. In early 2004, we reached an agreement with OMV to increase the volumes supplied under one contract by 2.5 bcm annually through 2012, as well as to increase our total deliveries to Austria by 1 bcm annually by 2006. Export volumes under our western European export contracts are usually expressed as a range, the lower end of which establishes the benchmark for the take-or-pay obligation and the upper end of which establishes our maximum annual delivery obligation. We are also seeking to expand our position in spot trading markets in Europe both independently and through our partners and affiliated companies.

We also participate in spot-market trading of natural gas in the United Kingdom, through our capacity in the Interconnector pipeline, and in Belgium. These transactions are conducted by Gazprom UK Trading Ltd. and WINGAS. See "—Transportation—International Projects and Alliances for Transportation—United Kingdom Interconnector Pipeline."

We receive natural gas for sale on spot markets through exchange operations with our traditional trading partners in Europe. In September 2003, Gazexport, WINGAS, WIEH, ZMB and Gazprom UK Trading entered into an agreement under which they planned to supply to the United Kingdom market up to 8 to 10 bcm annually on a spot market basis through 2013. This contract supplemented a framework agreement on short-term gas trading between Gazexport and WINGAS that was concluded in November 2002. Gazexport, Gaz de France and Gazprom UK Trading also concluded a framework agreement on spot market deliveries to the United Kingdom market in December 2003, and pursuant to this agreement contracts for the delivery of 0.82 bcm of natural gas were concluded in 2004. Additional sales on spot markets will be made in cooperation with E.ON Ruhrgas.

The table below shows the volumes we sold on a spot market basis in the United Kingdom and Belgium.

	<u>(bcm)</u>
2001	0.52
2002	1.99
2003	2.15

Western European gas markets are undergoing significant restructuring. In particular, the Gas Directive, adopted in August 1998 and subsequently replaced by the new Gas Directive, adopted in June 2003, have sought to deregulate and liberalize the EU gas market by introducing greater competition into the market and reducing gas prices for the end-user. The Gas Directives have sought to accomplish these objectives by opening transmission and distribution infrastructure to third parties and establishing fair tariffs for third-party use of natural gas transportation infrastructure and greater transparency of transportation and distribution costs by unbundling of the accounts for gas transportation, distribution and storage. The Gas Directives will increase competition in European gas markets as a greater number of suppliers gain access to the natural gas infrastructure.

The adoption of the new Gas Directive has accelerated these processes of market liberalization. Starting from July 1, 2004, all non-household gas consumers are to be able to select the gas supplier, and from July 1, 2007 this selection is to be extended to all natural gas consumers. The new Gas Directive also provides for regulated access by all parties to the gas transportation and gas distribution systems in the EU member states on the basis of published tariffs applicable to all gas suppliers, thereby increasing competition in the EU gas market. See “—Competition—Western Europe.”

Central and Eastern Europe

We enjoy a dominant position in supply to the central and eastern European gas markets for historical, economic, political and geographic reasons. The following table sets out our natural gas export volumes to central and eastern European countries for the periods indicated:

Country	For the three months ended March 31,		For the year ended December 31,		
	2004⁽¹⁾	2003⁽¹⁾	2003⁽¹⁾	2002⁽¹⁾	2001⁽¹⁾
				(bcm)	
Bosnia	0.1	0.1	0.2	0.2	0.1
Bulgaria	1.0	1.0	2.9	2.8	3.3
Croatia	—	0.2	0.6	1.2	1.2
Czech Republic	1.9	1.9	7.4	7.4	7.5
FYROM	0.02	0.03	0.1	0.1	0.1
Hungary	2.2	2.6	10.4	9.1	8.0
Poland	1.9	2.2	7.4	7.2	7.5
Romania	1.3	1.3	5.1	3.5	2.9
Serbia and Montenegro	0.8	0.7	1.9	1.7	1.7
Slovakia	2.0	2.1	7.3	7.7	7.5
Slovenia	—	0.2	0.7	0.6	0.6
Total⁽²⁾	<u>11.2</u>	<u>12.3</u>	<u>43.9</u>	<u>41.5</u>	<u>40.4</u>

Notes:

(1) Management estimates. The information in this table does not include natural gas volumes that are purchased and then resold by some Gazexport subsidiaries, primarily ZGG. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Year ended December 31, 2003 versus year ended December 31, 2002—Operating expenses—Transit costs.”

(2) Totals may not add due to rounding.

We face similar competitive pressures in central and eastern Europe from the liberalization of the natural gas market to those that we face in western Europe. These competitive pressures will be enhanced as more countries in the region join the European Union and further privatize state-owned natural gas companies and we face increased competition from other suppliers of natural gas. Despite the steps taken by central and eastern European countries to diversify their sources of gas supplies, we believe that as a result of various economic factors including the geographic proximity of central and eastern European markets to Russia, we will retain our historical role as the largest supplier of gas to central and eastern Europe.

In recent years, we have adopted a policy of negotiating medium-term and long-term contracts with our central and eastern European customers and gradually introducing western European contract terms into these contracts. Most of our central and eastern Europe export contracts now contain terms similar to those discussed above. See “—Europe.”

We supply natural gas in central and eastern Europe to state-owned natural gas distribution companies and in certain countries to joint ventures in which we participate in gas marketing and distribution. We are also considering the acquisition of additional gas marketing and distribution assets in the region.

The FSU

Our exports to the FSU accounted for approximately 8.6% of the volume of natural gas we sold and 6.7% of our natural gas net sales revenues in 2003. In 2003, we sold 42.6 bcm of natural gas to the FSU (42.6 bcm in 2002). The following table sets out our natural gas export volumes to FSU countries for the periods indicated:

Country	For the three months ended March 31,		For the year ended December 31,		
	2004⁽¹⁾	2003⁽¹⁾	2003⁽¹⁾	2002⁽¹⁾	2001⁽¹⁾
				(bcm)	
Belarus	0	4.0	10.2	10.2	11.6
Estonia	0.3	0.3	0.8	0.7	0.7
Kazakhstan.....	0.3	—	—	—	—
Latvia	0.6	0.6	1.2	1.1	1.0
Lithuania	1.0	1.0	2.9	2.4	2.2
Moldova	0.6	0.7	1.5	2.1	2.2
Ukraine.....	<u>8.2</u>	<u>7.0</u>	<u>26.0</u>	<u>26.0</u>	<u>22.0</u>
Total⁽²⁾	<u>11.0</u>	<u>13.6</u>	<u>42.6</u>	<u>42.5</u>	<u>39.7</u>

Notes:

- (1) Management estimates. The information in this table does not include natural gas volumes that are sold directly by certain Gazexport and Gazprom subsidiaries, for example KazRosGaz and Sibur.
- (2) Totals may not add due to rounding.

Current annual contract prices for the natural gas we supply to FSU countries are higher than current Russian domestic prices but lower than the prices we realize on sales to Europe.

Since 1999 we have limited our export supplies to certain FSU countries to avoid further exposure to non-paying customers. However, we expect these markets to recover. We plan to supply approximately 49.5 bcm of natural gas annually to the FSU through 2005, decreasing to approximately 45.8 bcm annually by 2010. In 2000, we signed long-term contracts with consumers in the Baltic States, which have historically maintained low levels of arrears, to supply a total of 25.5 bcm of natural gas between 2000 and 2005. We recently prolonged our gas supply contracts with customers in Estonia, Latvia and Lithuania through 2015.

Gas deliveries to Ukraine, Belarus and Moldova are made pursuant to contracts with the national natural gas companies Naftogaz Ukrainy, Beltransgaz and Moldovagaz, respectively. These contracts are negotiated annually pursuant to intergovernmental agreements. The contracts set out price parameters for the natural gas being sold and transit rates for natural gas through the relevant country. Sales to FSU countries are primarily made directly by Gazprom, though we also make some sales to Armenia, Belarus, Estonia, Georgia and Moldova through certain Gazexport and Gazprom subsidiaries, for example KazRosGaz and Sibur. The volumes of sales by these entities are not included in the management estimates presented above, though the revenue and volumes are included in our consolidated financial information.

Ukraine, our largest FSU customer, is traversed by major pipeline routes from the natural gas fields of western Siberia to export markets in Europe. Ukraine is also the source of substantial amounts of our industrial supplies, such as pipes and construction equipment. Currently, we are dependent on Ukraine for the transit of substantially all our natural gas sold in western Europe. In fulfillment of an intergovernmental agreement between Russia and Ukraine, in June 2002 we concluded an agreement with Ukraine on the transit of at least 110 bcm annually across Ukraine to Europe through 2013. Our projects to expand out transportation routes, including the Yamal-Europe pipeline, which is nearing completion, the Blue Stream pipeline, which is substantially completed, and the proposed North European pipeline under the Baltic Sea, will reduce our dependence on Ukraine for the transportation of natural gas to western Europe (including Turkey). See “—Transportation—International Projects and Alliances for Transportation.”

Moreover, Ukraine is dependent on us to meet its domestic natural gas requirements. This interdependence is taken into account in negotiations over a number of matters, including the terms of payment for natural gas supplied by us and transit fees charged by Ukraine.

Under intergovernmental agreements concluded in 2002 between the Russian Government and the government of Belarus on the creation of equal terms in the price policies and expanding cooperation in the gas industry, we delivered natural gas to Belarus at the wholesale price for the fifth price zone in Russia. Belarus was to privatize the Belarussian gas company Beltransgaz, and to form with us on the basis of Beltransgaz a joint venture for the supply and transportation of natural gas in Belarus. However, we were not able to reach an agreement on the terms of our participation in this joint venture and the valuation of the assets of Beltransgaz. As a result, we sought to conclude separate agreements with Belarus for the supply and transit of natural gas on a commercial basis. As a result of the failure to reach an agreement on these matters, we largely stopped selling natural gas to customers in Belarus in January 2004. Our transit of gas to the countries in Europe through the pipeline network in Belarus, including the Yamal-Europe pipeline, was not affected. Natural gas continued to be supplied to Belarus on a commercial basis by Itera, TransNafta and Sibur. See “—Transportation—Natural Gas Transit through Ukraine and Belarus.”

In June 2004 we concluded a contract with Beltransgaz for the delivery to and transit of natural gas through Belarus for the period from June through December 2004. The agreement specified volumes of gas to be supplied, prices, transport tariffs, and the terms of delivery and payment. We are continuing discussions on the creation of a joint venture on the basis of Beltransgaz.

The failure of a number of FSU customers to pay us for supplies of natural gas has resulted in substantial debts to us. As of December 31, 2003 and December 31, 2002, accounts receivable due from FSU countries for sales of natural gas were RR64,866 million and RR66,291 million, respectively (including VAT but excluding charges for late payment). This included amounts due from customers in Ukraine of RR40,476 million, Belarus of RR3,201 million and Moldova of RR20,066 million as of December 31, 2003, as compared to amounts due from customers in Ukraine of RR41,633 million, Belarus of RR3,733 million and Moldova of RR19,376 million as of December 31, 2002. These also represent our largest natural gas markets in the FSU. In June 2000, we limited deliveries of natural gas to Ukrainian customers to those deliveries required to pay for transit services through Ukraine, although since 2001 we have made some sales of gas to Ukrainian customers on a commercial basis. Since 2000, no further debts for the non-payment of gas delivered to Ukraine have accrued.

We are also taking specific measures to reduce arrears for payments of natural gas owed by FSU customers. In 2000, Moldova restructured a portion of its debt to us by issuing U.S.\$90 million worth of sovereign notes with a repayment schedule over seven years. In 2001, we cancelled indebtedness to us for gas supplied in 1997 in exchange for equity in Moldovagaz valued at U.S.\$60 million. An amount of U.S.\$276 million owed by Ukraine was set off against delivery of military hardware to the Ministry of Defense of the Russian Federation. In consideration of this delivery of military hardware, we received tax credits in an amount equal to the amount owed to us by Ukraine. In October 2001, the Russian Government signed agreements with the Cabinet of Ministers of Ukraine and with the Government of Moldova that provided for the restructuring of Ukraine’s and Moldova’s remaining debt for previously supplied natural gas in the amounts of U.S.\$1.4 billion and U.S.\$0.9 billion, respectively. According to the agreement between the Russian Government and the Cabinet of Ministers of Ukraine, Naftogaz Ukrainy is to transfer Eurobonds maturing between 2004 and 2013 to us in full settlement of these remaining obligations. We are currently engaged in discussions to resolve certain outstanding tax and legal issues in connection with such settlement. We are also currently conducting negotiations on the restructuring of Moldova’s remaining debt to us.

Russia

In 2003, we sold 308.2 bcm of natural gas in Russia, representing 62.2% of our total natural gas sales volumes and 28.6% of our natural gas net sales revenues in 2003.

Domestic Market Conditions. The Government regulates natural gas prices for the gas that we sell but does not regulate the prices of crude oil or coal (or the price of natural gas sold by independent producers). As a result, the regulated price of natural gas in 2004 is approximately 85% of the price of power-generating coal, and approximately 35% of the price of fuel oil as referenced against one toe.

The result of the regulation of natural gas at below market prices has been a shift in Russia toward increased use of natural gas compared with other sources of energy. Russia has the world’s most

gas-intensive economy. In contrast to many other major industrial economies where gas is primarily used for household consumption, natural gas in Russia is used principally for electricity generation and in the metallurgical and chemical industries. We believe that households accounted for 17% of the volume of the natural gas that we supplied in Russia in 2003, while industrial users, electricity generation, federal budget and municipal organizations and other non-household consumers accounted for 83% of the volume of the natural gas that we supplied in Russia in 2003.

Specific wholesale prices fixed by the Federal Energy Commission of Russia (the “FEC”), from March 12, 2004, the Federal Tariffs Service (“FTS”), are differentiated between household and industrial consumers, as well as along seven price bands among which prices vary based on relative distance from the gas production region.

Wholesale prices for natural gas supplied to industrial consumers in the Russian Federation are higher than wholesale prices for natural gas supplied to household consumers. In addition, excise tax applied to sales to industrial consumers prior to January 1, 2004, but not to sales to household consumers.

The following table sets forth the regulated nominal wholesale natural gas prices for industrial consumers in the Russian Federation in each price band for the periods indicated in nominal RR per thousand cubic meters, including excise tax (for periods prior to January 1, 2004) but excluding VAT. The excise tax was approximately 15%, but was abolished from January 1, 2004.

<u>Price bands</u>	<u>From Nov. 1, 1999</u>	<u>From May 1, 2000</u>	<u>From Jan. 20, 2001</u>	<u>From Feb. 15, 2002</u>	<u>From July 1, 2002</u>	<u>From Jan. 1, 2003</u>	<u>From Jan. 1, 2004</u>
(nominal RR per mcm)							
0	224	224	264	317	365	438	526
I	258	270	319	383	440	528	634
II	283	315	372	446	513	616	739
III	305	353	417	500	575	690	828
IV	312	371	438	526	605	726	871
V	317	388	458	550	633	760	912
VI	323	400	472	566	651	781	937
Price increase ..	20%	20%	18%	20%	15%	20%	20%
Weighted average	312	373	440	528	607	732	873

The total price paid by industrial consumers for natural gas includes the regulated wholesale price, a transportation tariff and a marketing and sales services fee. The wholesale price, which was established by the FEC and now by the FTS, is paid to us, and prior to January 1, 2004 included the 15% excise tax applicable to sales to industrial consumers. The transportation tariffs, which were also established by the FEC and now by the FTS, but which vary by region, are paid to the gas distribution companies that transport the gas through their medium- and low-pressure pipelines to the industrial consumers, and the marketing and sales services fees, which were also set by the FEC, and are now established by the FTS, are paid to the regional trade houses.

The following table sets forth the regulated nominal wholesale gas prices for household consumers in the Russian Federation in each price band for the periods indicated in nominal RR per mcm (excluding VAT).

<u>Price bands</u>	<u>From Nov. 1, 1999</u>	<u>From May 1, 2000</u>	<u>From Mar. 1, 2001</u>	<u>From Feb. 15, 2002</u>	<u>From Aug. 1, 2002</u>	<u>From Feb. 1, 2003</u>	<u>From Jan. 1, 2004</u>
(nominal RR per mcm)							
0	157	181	226	271	314	387	464
I	165	190	238	286	332	410	492
II	181	208	260	312	362	447	536
III	194	223	279	335	389	480	576
IV	198	228	285	342	397	490	588
V	203	233	291	349	405	500	600
VI	206	237	296	355	412	508	610
Price increase ..	5%	15%	25%	20%	16%	23%	20%
Weighted average	200	231	289	347	402	495	595

The total price paid by household consumers for natural gas is established by the regional authorities and covers the regulated wholesale price for household consumers, a transportation tariff and a marketing and sales services fee. In some cases, the total price may also cover a utilities or municipal maintenance fee. The wholesale price, which was established by the FEC and is now established by the FTS, is paid to us. The transportation tariffs, which were also established by the FEC and now by the FTS, but which vary by region, are paid to the gas distribution companies that transport the gas through their medium- and low-pressure pipelines to the household consumers, and the marketing and sales services fees, which were also set by the FEC, and are now established by the FTS, are paid to the regional trade houses.

The pricing structure for household consumers is complicated by a variety of factors. These include the existence of multiple price sub-categories (for example, pensioners and war veterans pay discounted prices); the lack of metering devices on individual apartments (gas fees are generally calculated in accordance with established norms and paid monthly); and the fact that certain customers cannot be cut off for non-payment because of legal and technical constraints.

From late 1996 through 1999, regulated gas prices remained stable. Since 2000, the Government has adjusted gas prices on an annual basis. The Government increased gas prices by an average of 20% for 2003 for both industrial consumers and household consumers by raising the price of gas for industrial consumers by 20% from January 1, 2003 and for household consumers by 23% from February 1, 2003. Prices for both industrial and household consumers were increased by a further 20% from January 1, 2004. In 2003, average wholesale prices for household consumers were 32.4% lower than those charged to industrial consumers, and in 2004 average wholesale prices for household consumers are 31.8% lower than those charged to industrial consumers.

The Government has also acknowledged that domestic gas prices remain low, notwithstanding that prices increased at a faster rate than inflation from 2002. We annually propose increases in the regulated price of natural gas. For example, we have proposed an increase of 16% in domestic gas prices for 2005 and 22% for 2006 (in each case excluding inflation, which is estimated at 10% in 2005 and 9.6% in 2006). In March 2004 the Ministry of Economic Development and Trade proposed price increases of 20% for 2005, 11% for 2006 and 8% for 2007 (in each case including expected inflation). In May 2004 the Government determined that the increase in domestic prices in 2005 will not exceed 20%, and we expect that the final determination of regulated gas prices for 2005 will be made in August 2004. We have also proposed to increase the number of wholesale price zones from seven to eleven, in order to reflect actual transportation costs to regions that are more distant from production fields, and to introduce seasonal variation in gas prices, in order to smooth demand and transportation requirements.

The Russian Energy Strategy for the period through 2020 (as approved by the Government in May 2003 and signed by the Prime Minister of the Russian Federation in September 2003) includes estimates of long-term dynamics of gas prices required in order to achieve targeted levels of gas production. These average prices are forecast at U.S.\$40-41 in 2006 and U.S.\$59-64 in 2010 per mcm, excluding VAT. The Russian Energy Strategy also provides for a gradual shift to the sale of gas at market prices in order to facilitate self-financing by gas market participants and a more objective estimation of demand for gas. As a first step towards the sale of gas at market prices, together with independent producers we have prepared proposals on organizing open tenders for the sale at market prices of certain quantities of gas (determined by the Government) at market prices. Such sales would help to test and develop market relationships and provide a foundation for the further development of this market, ultimately leading to the creation of a gas market in Russia in which prices and volumes are determined by market forces.

Domestic Sales. We sell our products domestically through our wholly-owned subsidiary Mezhhregiongaz and the more than 50 regional trade houses in Russia, 47 of which we controlled as of March 31, 2004. Our sales to household customers have increased as we have gained influence over gas distribution companies. Beginning in the late 1990s, we began acquiring interests through debt for equity swaps in gas distribution companies. The gas distribution companies own and operate medium and low-pressure pipelines that transport gas to end consumers. As of December 31, 2003, we had controlling interests in 114, and non-controlling interests in an additional 71, of the approximately 320 gas distribution companies in Russia.

Our acquisitions of controlling interests in the gas distribution companies have enabled us to capture the transportation tariffs that are payable to them in respect of the transportation services they provide, as described above. In addition, part of our strategy has been to remove gas distribution companies from the marketing chain. In the past, some gas distribution companies purchased gas from the regional trade houses and marketed and sold it to end users. We have implemented a strategy according to which the

regional trade houses contract directly with and collect payments from the end customers, including households. Nearly all of the regional trade houses now operate on this basis.

In order to increase the efficiency of our regional gas distribution system, we currently plan to consolidate the shares in gas distribution companies that we and our subsidiaries own into a holding company, OAO Mezhtregiongazholding (“Mezhtregiongazholding”). The creation of Mezhtregiongazholding will centralize the ownership of our shares in gas distribution companies as well as new gas distribution pipelines that we have constructed in recent years.

We also recently tested a strategy to streamline our domestic marketing operations by removing Mezhtregiongaz from the marketing chain, allowing us to sell gas directly through our 43 regional trade houses. We hoped that removing Mezhtregiongaz from the marketing chain would result in cost and tax savings and increase the efficiency of our marketing. As part of this strategy, starting from March 2003 on a trial basis we concluded 15 contracts to sell gas directly to our regional trade houses starting from April 2003. Following an evaluation of the results of this test, we discontinued this program in late 2003.

In the past several years, we have shifted from long-term domestic gas supply contracts with terms of up to ten years (subject to annual delivery volume adjustments) to one year gas supply contracts with our industrial customers and gas distribution companies. These contracts require customers to make full payment (excluding any advance deposits) for the natural gas they received on or before the tenth or fifteenth day of the month immediately following the month of delivery. The contracts may contain penalty terms for late payment and customers’ supplies of natural gas may be restricted and eventually stopped if non-payment continues. In addition, surcharges may be levied for gas supplied in excess of the contracted-for daily quotas (50% in winter and 10% in summer).

Delayed Payments for Gas Deliveries in Russia. During the early and mid-1990s, natural gas prices rose rapidly for all domestic customers, partly to keep pace with high inflation and partly to reflect the much higher prices received from exports to Europe. The sharp rise in price led to an increase in non-payment by Russian customers and settlement in forms other than cash. The increase in the price of natural gas had a particularly pronounced negative impact on the power generating industry, which accounted for most of the non-payments.

From 1999 through 2002, we improved our cash collection dramatically for natural gas delivered to Russian consumers. This was due generally to the improvement of the Russian economy and more specifically to our cooperation with consumers and administrations of various Russian regions. As of December 31, 2003, gross accounts receivable for natural gas supplied to Russian customers amounted to RR34,395 million, compared to RR47,768 million as of December 31, 2002 (including Russian VAT but excluding late payment charges). Most of the accounts receivable for natural gas supplied to Russian customers is in respect of customers in southern Russia, including in Chechnya, Dagestan and the Saratov and Stavropol regions. During 2003, we received approximately 79% of payments for domestic gas sales in cash, and 21% in other forms, almost all of which constituted promissory notes. We have also significantly shortened the average maturity of the promissory notes that we receive in such transactions.

Pursuant to various Government regulations, we do not have the right to cut natural gas deliveries to a number of categories of consumers, including hospitals, household utilities (such as water and electricity suppliers), military and state telecommunication organizations, and other consumers whose activities are vital for Russia’s national security and environmental safety.

International Projects and Alliances in Marketing

WIEH Marketing Arrangement. In 1990, we and BASF agreed to undertake the joint marketing of natural gas and to build and operate a network of trunk gas pipelines in Germany. See “—Transportation—International Projects and Alliances for Transportation.”

We and Wintershall AG (a wholly-owned subsidiary of BASF) each have a 50% shareholding in the trading company WIEH. WIEH purchases its natural gas supplies exclusively from Gazexport under long-term contracts. We have concluded two long-term natural gas supply contracts with WIEH for a total annual volume of 13.9 bcm. WIEH sells gas to WINGAS, Verbundnetzgas, a major natural gas distributor in eastern Germany (of which ZGG, a wholly-owned subsidiary of Gazexport, owns approximately 5%) and BASF. WINGAS sells gas to municipal undertakings, gas utilities and major industrial consumers. We have also concluded two long-term natural gas supply contracts directly with WINGAS for a total annual volume of 5.8 bcm during the plateau period. In 2003, under these contracts we supplied 15.2 bcm (14.4 bcm in 2002) of natural gas to WINGAS and WIEH for sale in Germany and other western European countries.

Beltransgaz privatization. The Belarussian parliament is in the process of privatizing Beltransgaz, the Belarussian state-owned gas transportation and distribution company. Under the auspices of an agreement between the Government of the Russian Federation and the government of Belarus on expanding cooperation in the gas sector, we have held negotiations with the government of Belarus for the creation of a joint gas transportation organization and the formation of a joint venture with Beltransgaz. We have not yet reached an agreement with the government of Belarus on the terms of our participation in this proposed joint venture. See “—The FSU.”

SPP privatization. Approximately 80% of Russian natural gas supplied to Western Europe passes through the gas transit pipelines in Slovakia, and Slovensky Plinarensky Priemysel A.S. (“SPP”) has a monopoly over transportation, storage and distribution of gas in Slovakia. SPP owns and operates gas pipeline networks with a total length of 2,268 km and an annual throughput of 93 bcm as well as storage in Slovakia and Czech Republic with a total capacity of 1.8 bcm. In March 2002, E.ON Ruhrgas and Gaz de France participated in a tender for the privatization of a 49% interest in SPP, and paid U.S.\$2,765 million for the privatized shares, which they hold through their joint venture holding company SGH (Netherlands). We hold an option, which expires in December 2005, to acquire a one-third interest in SGH. In February 2004 we reached an agreement with E.ON Ruhrgas and Gaz de France on adjustments to the terms of our option in SPP that take account of the appreciation of the euro, and we are currently finalizing a feasibility study and developing a strategy for our participation in SPP.

Romanian Gas Distribution. We are currently considering participating in the privatization of the Romanian gas distribution and transportation company Distrigas Sud, in order to improve our access to the end users of natural gas, to improve the marketing base for the gas that we export and to increase our presence in gas distribution in markets that we believe will have increasing gas consumption on a medium- and long-term basis. In March 2004, we made a nonbinding bid to participate in the privatization tender and we are currently preparing a binding bid.

Baltic region. We have acquired interests in several natural gas companies in the Baltic region. Our interests in these companies enables us to improve their operational efficiency, to stabilize the gas markets in these countries and to increase our foreign currency earnings.

We have been a shareholder in the Estonian gas company AO Eesti Gaas since 1993, and currently hold a 37.0% interest. Eesti Gaas engages primarily in marketing and transportation of gas through gas transportation pipelines and the development and modernization of Estonia’s gas transportation system.

We have been a shareholder in the Latvian gas company AO Latvias Gaze since 1997, and currently hold 25% plus one share. We are considering the acquisition of an additional 9% interest in Latvias Gaze. Latvias Gaze engages primarily in supplying and marketing natural and liquefied gas in Latvia, and also operates the gas transportation system within Latvia.

In March 2004, we acquired a 34% interest in AO Lietuvos Dujos. Lietuvos Dujos engages primarily in the distribution and transportation of natural gas in Lithuania. An additional issuance of shares in AO Lietuvos Dujos has been announced, on the completion of which our interest will increase to 37%. We also obtained a 99% share in ZAO Kaunaskaya Teplofikatsionnaya Elektrostansiya (Kaunas Heating and Electrical Station), which produces heat and electrical energy in Lithuania, in March 2003. We are currently considering supplying electricity from this facility to the Kaliningrad region of Russia.

KazRosGaz. In implementation of an intergovernmental agreement between Russia and Kazakhstan in the gas sector concluded in November 2001, with ZAO NK KazMunaiGaz we formed the joint venture ZAO KazRosGaz (“KazRosGaz”) to purchase and market natural gas and process it at gas processing plants in Russia, among other activities. Since September 2002, KazRosGaz has been purchasing gas from the Karachaganak field. In 2004 it began delivering natural gas from Central Asia to customers in Azerbaijan. KazRosGaz also purchases gas and delivers it to our Orenburg Gas Refinery. See “Refining—Projects and Alliances in Refining—Karachaganak Gas Processing.”

Other Joint Ventures. In addition to our activities in Germany, we have established joint ventures to transport and market natural gas in other European markets. In certain countries, our subsidiaries or affiliates also distribute natural gas. We have begun to implement our strategy of acquiring equity participations in gas transportation companies and gas marketing companies, which was a success in Germany, in other European markets. The following table summarizes the main natural gas transportation and marketing joint ventures in which Gazprom or Gazexport participated in European markets other than Germany as at December 31, 2003:

Country	Entity	Interest	Joint Venture Partner(s)	Description
Austria	Gas und Warenhandelsgesellschaft GmbH	50%	OMV	Gas marketing, gas trading and general trading company
Estonia	AO Eesti Gaas	37%	E.ON Ruhrgas, Fortum Corporation, Itera-Latvia, other shareholders	Marketing of natural gas, development of Estonia's gas transportation networks
Finland	Gasum Oy	25%	Fortum Corporation, E.ON Ruhrgas, the State of Finland, other Finnish companies	Gas transportation and marketing
	NordGaz Oy	50%	Fortum Corporation	Transportation of natural gas and operation of gas transportation network
France	Fragaz	50%	Gaz de France	Gas distribution and general trading activities
Greece	Prometheus Gas	50%	Copelouzos	Gas marketing and construction of gas transportation systems
Hungary	Panrusgaz	40%	MOL	Gas marketing and distribution
Italy	Promgaz	50%	ENI	Gas marketing and distribution
Latvia	AO Latvian Gaze	25%	Itera-Latvia, Ruhrgas Energie Beteiligungs, E.ON Energie AG, the State of Latvia, other shareholders	Marketing of natural gas and liquefied gas, development and modernization of Latvia's natural gas and services industries
Lithuania	Stella Vitae	30%	Auri, other shareholders	Marketing of natural gas, crude oil and refined products
Poland	EuRoPol GAZ S.A.	48%	PGNiG S.A.	Transportation, construction, ownership and operation of the Polish section of the Yamal-Europe project
	Gas Trading	16%	PGNiG S.A., Bartimpex S.A., WIEH, Wenglokoks	Gas marketing, liquefied gas trading
Slovakia	Slovrusgaz	50%	SPP	Gas transportation and marketing, general trading business
Turkey	Turusgaz	45%	Botas International Ltd., Gama Industrial Plants Manufacturing and Erection Corp.	Gas marketing

We and our subsidiaries also own stakes in companies located in Armenia, Belarus, Bulgaria, Kazakhstan, Moldova, The Netherlands, Serbia and Montenegro, Ukraine and the United Kingdom.

Competition

The oil and gas industry is currently subject to several important influences that impact the industry's competitive landscape. These include the following:

Consolidation. In the past few years, the strategic and competitive landscape of oil and gas markets have been transformed by mergers and acquisitions, driven mainly by aspirations for greater profits and intensified competition to capture the growing potential of new, attractive business opportunities.

Technological Advances. Technological innovations in the oil and gas industry have improved the technical-economic performance in finding and developing hydrocarbon resources. Active and effective application of advanced technology has helped to improve geologic exploration success rates, to increase field life and recovery rates from existing fields and to reduce full project cycle costs. In general, there is comparable access to technology across the industry, and to achieve our strategic and financial goals, we will seek to compete by applying available technology to complex projects.

Environmental and Social Concerns. Oil and gas companies worldwide are also facing increasing demands to conduct their operations consistent with environmental protection and social goals. Investors, customers and governments are more actively following companies' performance with respect to environmental responsibility, human rights and development of alternative and renewable fuel resources. As a result, we expect competition to intensify in the markets we serve.

Europe

The table below shows the proportion of natural gas supply attributable to each supplier of natural gas to Europe in 2003.

<u>Country</u>	<u>% of European Natural Gas Supply in 2003</u>
Russia (Gazprom)	25.3
United Kingdom	19.6
Norway	14.0
The Netherlands	13.5
Algeria	10.9
Germany	4.2
Italy	2.6
Other	9.9

Source: CEDIGAZ, "The 2003 Natural Gas Year in Review—CEDIGAZ First Estimate" (April 2004).

Western Europe

Natural gas supplies to western Europe have outpaced demand in the past several years and, according to specialists from the International Energy Agency, this trend will continue for the next four to five years. As a result, we anticipate exporting natural gas to western Europe at close to the minimum amounts defined in our export contracts over this period. Over the long-term, however, production in the countries of western Europe will continue to decline due to the depletion of explored natural gas reserves in the region and imports from Russia, Algeria and Norway are likely to increase in importance as a proportion of consumption.

Western European gas markets are undergoing significant restructuring. In particular, the Gas Directive, adopted in August 1998 and subsequently replaced by the new Gas Directive, adopted in June 2003, seeks to deregulate and liberalize the EU gas market by introducing greater competition into the market and reducing gas prices for the end-user. The Gas Directive seeks to accomplish these objectives by opening up transmission and distribution infrastructure to third parties and establishing fair tariffs for third-party use of natural gas transportation infrastructure and greater transparency of transportation and distribution costs by unbundling of the accounts for gas transportation, distribution and storage. The new Gas Directive will increase competition in European gas markets as a greater number of suppliers gain access to the natural gas infrastructure.

The adoption of the new Gas Directive in June 2003 has accelerated these deregulatory processes. Starting from July 1, 2004, all non-household gas consumers are to be able to select the gas supplier, and from July 1, 2007 this selection is to be extended to all natural gas consumers. The June 2003 Gas Directive also provides for regulated access by all parties to the gas transportation and gas distribution systems in the EU member states on the basis of published tariffs applicable to all gas suppliers, thereby increasing competition in the EU gas market. Because of the distance of our natural gas fields from consumers in Europe, it is difficult for us to engage in spot transactions involving physical settlement. We

believe, however, that natural gas is likely to continue to be supplied under long-term export contracts, both because long-term contracts provide a stable supply of natural gas to Europe during a period of declining local production and because long-term supply contracts are essential in enabling us to finance investment in our natural gas exploration and development. We expect that the substantial gas reserves owned by Gazprom will support our competitive position as a major supplier of natural gas to the western European market. We also intend to build on our position and experience in spot trading to take advantage of the new opportunities that may develop in the course of the restructuring of European natural gas markets.

We received a request for information from the European Commission with respect to the destination clause in our contract with an Italian off-taker, under which the Italian off-taker is prevented from re-exporting gas that it purchases from us. During the course of consultations with us, the European Commission recognized the need to find economic alternatives to destination clauses that are viable for suppliers of natural gas. We have, for example, found such a solution with Eni and OMV, and are negotiating alternatives with another offtaker. We no longer include such clauses in new contracts.

In response to the changes in the European market that have been brought about by the Gas Directive and that are expected to result from the new Gas Directive, we have entered into a number of marketing joint ventures and we now have joint ventures in, among other countries, Austria, Finland, France, Germany, Hungary and Italy. See “—Marketing—International Projects and Alliances in Marketing.”

Production of natural gas and crude oil in western Europe is expected to decline in the next several years. For example, production of natural gas in the United Kingdom is expected to decrease by 2005 and, accordingly, its imports will increase to keep pace with the growth of demand. According to estimates by EC experts, the dependence of EU member states on imports of gas from third-party countries will grow from 40% in 2000 to 70% in 2020, which may lead to increased demand for Russian gas.

Central and Eastern Europe

The competitive pressures we face in central and eastern Europe are similar to those we face in western Europe, namely a liberalization of the natural gas market (caused in particular by the entry of some countries in the region into the EU), privatization of natural gas companies and competition from other suppliers. As a result of existing historical and economic factors, as well as the geographical proximity of central and eastern European markets to Russia, we still consider ourselves to be the main supplier of gas to countries in this region. Despite the steps taken by central and eastern European countries to diversify their sources of gas supplies, we believe we will retain our role as the leading supplier of gas to central and eastern Europe.

Russia and the FSU

In Russia, we face competition from other crude oil and natural gas suppliers, in particular from independent suppliers in Russia. In the FSU, we face competition from independent suppliers in Russia and natural gas producing companies in Turkmenistan, Kazakhstan and Uzbekistan. Since April 1998, independent Russian suppliers have been granted non-discriminatory access to existing UGSS capacity in Russia. The independent suppliers (the largest of which include Itera, OAO NOVATEK, OOO Orensal and OAO Tsentrussgaz) have historically been, and continue to be, our competitors. In our view, this position is mainly a result of the Government's policy of offering preferential terms for gas sales by such independent suppliers (for example, the low transportation tariff set by the FTS for transportation of natural gas through the UGSS). Additionally, such independent suppliers can generally be more flexible than we can be with respect to the contractual terms and conditions that they can offer to customers in Russia and the FSU, as they are not bound by the same strict regulatory requirements that apply to us. See “Overview of the Russian Gas Industry and its Regulation—Russian Regulation.”

In 2003, the independent suppliers accounted for 83.3 bcm of natural gas transported through the UGSS, as compared to approximately 75.3 bcm in 2002. However, the competitive position of alternative suppliers is limited by the relatively small size of their reserves base, relatively high costs of production and their dependence on access to our transportation network.

Research and Development

We have pursued a policy of investing in research and development in a number of scientific and technical areas. In general, our research and development focuses on:

- economically efficient ways to develop fields in prospective production regions such as the Obshchinskaya Bay, the Yamal Peninsula, the Barents Shelf and the Kara Sea, eastern Siberia and the Russian Far East that are characterized by difficult climatic and geological conditions;
- maintaining production from existing fields with declining production;
- creating technology for the effective development of small natural gas fields and non-traditional resources, for example methane from coal fields;
- creating technology for the production, transportation and utilization of low-pressure natural gas reserves that remain in the earth during the final stages of gas field development;
- developing technology for the production and transportation of liquefied and compressed natural gas;
- developing a diagnostic system, technical funds and a new generation of technology and equipment for maintaining the dependability and effectiveness of the UGSS; and
- creating energy-saving technology and equipment, and developing a comprehensive energy-saving scientific-technical program.

Support Activities

Because of the broad geographic range of our core business, the remoteness of our fields and the relatively undeveloped infrastructure in the regions in which we produce natural gas, we operate our own electricity generation and communications operations as well as various other activities, such as food processing and procurement and transportation (including auto transport and aviation), to support the activities of the employees who work in the exploration, production, and transport of our gas.

We currently operate approximately 84,000 km of electricity transmission lines as well as more than 2,300 electric power stations with a total capacity of 1.58 million kW. We produced approximately 1.4 billion kWh of electricity in 2003, compared to 1.3 billion kWh and 1.2 billion kWh in 2002 and 2001, respectively. Our own production of electricity accounts for only 7% of our total consumption, which totaled approximately 18.9 billion kWh in 2003. OOO Gazpromenergo, our wholly-owned subsidiary that manages our construction and maintenance of power stations and electrical lines, was granted the status of an energy supplying entity and received permission to purchase electrical energy on the Russian wholesale spot electricity market starting from January 1, 2004. As a result of these purchases, we expect that expenses for the purchase of electricity by our subsidiaries will decrease by 10-15% over the next two years, notwithstanding a recent increase in our total cost of purchased electricity. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Year ended December 31, 2003 versus year ended December 31, 2002—Operating Expenses—Electricity.” We have also acquired interests in OAO Mosenergo and RAO UES. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Certain Acquisitions and Dispositions” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments.”

We operate an extensive internal communications network, which we maintain and operate in conjunction with the UGSS to help ensure the technical reliability and safety of the UGSS. The network consists of a ground-based network and a satellite system. As of December 31, 2003, the ground-based network included 84,800 km of cable communication lines, 20,500 km of multi-channel radio lines and 719 automated telephone stations with a total capacity of 304,300 numbers. The satellite system consists of the “Yamal-100” and two “Yamal-200” satellites and 123 land-earth satellite stations that transmit to and receive signals from the satellites. The Yamal-200 satellites were placed into orbit in November 2003, and have resulted in a seven-fold increase in the capacity of our communications system. Our own requirements will utilize approximately 25% of the total capacity of these satellites, with the balance being used by Government structures and leased by telecommunications companies. We have been expanding our telecommunications network in conjunction with our production and transportation projects, including the Zapolyarnoye field and construction of the Blue Stream, SRT0—Torzhok and Pochinki—Izobilnoye pipelines.

We also engage in various other activities that support our main business, including insurance and banking. We also own the largest non-state pension fund in Russia, Gazfund, which we use to provide pension services for our employees.

Insurance

Exploration for and production, refining and transportation of natural gas, gas condensate and crude oil is hazardous. Natural disasters, operator error or other occurrences can result in oil spills, blowouts,

cratering, gas leaks and fires, equipment failure and loss of well control, which can injure or kill people, damage or destroy wells and production facilities, and damage property and the environment.

We are insured through our insurance subsidiary Sogaz. The premiums for the insurance that we obtain through Sogaz are generally consistent with market rates. Our insurance coverage falls into five principal categories: (i) insurance of fixed assets owned or leased by Gazprom, including pipelines, compressor and gas distribution stations, gas processing plants, wells and production equipment and production and non-production buildings; (ii) insurance of the natural gas we transport through the UGSS in Russia; (iii) insurance of liabilities arising out of legal obligation to pay for damages to third parties and environmental damages resulting from malfunctions in our industrial facilities; (iv) insurance of the work and materials used in conducting repairs at our production facilities; and (v) insurance for the civil liabilities of our automobiles, in accordance with legislation that came into effect during 2003. We do not carry insurance for environmental damage arising from accidents on our property, business interruption insurance or insurance against terrorist attacks. We only carry such insurance for risks faced by Gazprom and our principal subsidiaries, and as a result do not have full insurance for all of our plant facilities. See “Risk Factors—Risks Relating to our Business—We face certain operational risks which may result in losses and additional expenditures.”

Gazprombank

Gazprombank, Russia’s third largest bank as measured by total assets and capital, services a majority of our banking needs (other than borrowings). Gazprombank was founded in 1990 with the primary goal of improving the quality and effectiveness of financial services to us and the Russian gas industry as a whole. Gazprombank’s principal services comprise lending, deposit taking, securities and foreign exchange trading and trade finance. Gazprombank also generates income from providing settlement services for interregional payments for gas supplies, plastic card operations, depositary and custodial services and servicing financings for us. Since its founding, Gazprombank has developed a network of 31 branch offices and 106 regional offices located throughout the Russian Federation. The bank also has shareholdings in eight other banks, which extends its network to approximately 290 banking offices in 50 regions of Russia, four regions of Belarus and Hungary. Its network extends to the principal regions where gas is extracted, produced and transported and to many of the largest financial and industrial centers in the Russian Federation.

Most of Gazprombank’s funding is from us, and most of its credit exposures are to us. Gazprombank’s activities are closely linked to our requirements and pricing is determined accordingly.

Gazprombank had total assets under IFRS as recorded in its audited IFRS consolidated financial statements as of December 31, 2003 of U.S.\$6,966 million, of which transactions with our group accounted for U.S.\$2,425 million, and total liabilities of U.S.\$5,959 million, of which transactions with our group accounted for U.S.\$1,967 million. As of December 31, 2003, transactions of Gazprombank with members of our group accounted for U.S.\$1,766 million (49%) of Gazprombank’s total gross exposures (including assets and off-balance sheet commitments).

As of December 31, 2003, approximately 53% of Gazprombank’s total loans outstanding were either directly to, or were guaranteed by, members of our group and 58% of its current accounts and deposits were due to our group (as well as a significant additional portion due to one of our associated companies, Gazenergoprombank). A majority of its trade finance activity also related to us and most of its securities trading activities were in respect of our shares. The decline in the relative volume of loans to members of our group is attributable to Gazprombank’s efforts to diversify its customer base in order to comply with Central Bank exposure limitations, though such loans as of December 31, 2003 still exceeded these limits. Gazprombank’s principal customers outside of the gas sector include enterprises in the engineering, petrochemicals, transport, precious metals and precious stones, food processing, high technology machinery, pension fund and insurance sectors.

Non-Core Businesses

In addition to the support activities described above, we have investments in various other businesses that are not related to our core operations. Such investments mainly represent equity holdings which have been received in the course of privatization (e.g., interests in agricultural, civil, construction and medical care enterprises) or acquired either through debt for equity swaps (e.g., stakes in regional utility companies) or directly for strategic and other considerations. One of our larger non-core businesses is Gazprom-Media, our subsidiary that manages our investments in a number of media holding companies,

including NTV, Russia's largest independent TV channel. In 2000 and 2001, following fulfilment of our obligations under loan guarantees that we had made on behalf of Media-MOST, we acquired interests in NTV and other Media-Most operating companies. In July 2002, we acquired additional interests in Media-Most, in NTV and in certain of our other media subsidiaries, as well as payables and promissory notes to third parties due by these companies. The consideration was paid partly in cash and partly through the forgiveness of debt owed to Gazprom. As a result of this transaction we increased our interest in NTV from 65.0% to 95.6% and in Media-Most from 14.3% to 38.6%. In October 2002, we signed a framework agreement to sell non-controlling interests in certain media companies, including NTV, to Evrofinance Group (as nominee), the consideration for which was partially settled in cash and partially through the settlement of certain debt obligations of Media-Most and its media companies to us. The interests to be sold primarily comprised those acquired in July 2002. As a result, our interest in NTV was reduced to 65.0%. Under the framework agreement, Evrofinance Group is to contribute cash and these acquired interests into a new media holding company, which will be controlled and majority-owned by us. Our contribution into the new holding company will comprise the remaining interests in certain of our media subsidiaries. We expect to complete these transactions in 2004.

In January 2003, in accordance with an option provided for by the NTV GDRs purchase agreement dated April 1, 2001, we acquired the GDRs from the SmallCap World Fund Inc. for U.S.\$32.0 million paid in cash. In February 2003 the GDRs were exchanged for common shares of NTV and OAO TNT-Teleset. As a result of this transaction, we increased our interest in NTV from 65.0% to 69.4% and in OAO TNT-Teleset from 50.0% to 51.7%.

Health, Safety and Environment

Our operations in Russia are subject to a number of environmental laws and regulations. These laws govern, among other things, regulations on the composition of emissions into the atmosphere, wastewater discharges and discharges to the sea, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. As we are a production company, environmental liability risks are inherent in our operations. See "Risk Factors—Risks Relating to our Business—As an energy company we face significant environmental risks" and "Overview of the Russian Gas Industry and its Regulation—Russian Regulation—Environmental Requirements."

We also have an impact on the surrounding environment in the ordinary course of our business activities. However, we believe that our operations are generally in compliance with applicable environmental regulations.

We have developed and continue to improve a system for monitoring harmful leaks, water contamination, and the quality of air, water and soil in the Russian regions in which the UGSS infrastructure is located. In a number of regions this system has become an integral part of the Russian Federation's unified State Ecological Monitoring System. We have conducted an audit at seven of our principal subsidiaries in accordance with International Standard ISO 14000, a widely recognized set of environmental standards developed by the International Organization for Standardization, a nongovernmental body composed of national standard making bodies from over 140 countries. We intend to conduct such an audit of our other principal subsidiaries and to confirm that our environmental protection management system as a whole is ISO 14000 compliant.

In 2002, the General Prosecutor issued a report identifying several instances in which we were not in compliance with Russian environmental regulations. We have now brought our practices in line with the regulations.

To date, we have not had any serious accidents that have had a significant environmental impact.

Russian environmental legislation establishes a "pay-to-pollute" regime. In accordance with this regime, we make statutory payments to ecological funds and state authorities for environmental pollution. We paid (in nominal RR amounts) RR119.0 million in 2001; RR83.2 million in 2002; and RR143.3 million in 2003. We have also paid (in nominal RR amounts) environmental penalties of RR0.8 million in 2001; RR0.8 million in 2002; and RR0.5 million in 2003 relating to environmental protection. Forthcoming changes in environmental legislation are expected to eliminate the "pay-to-pollute" regime in favor of increasing punitive payments for environmental violations. Since we paid only a small amount in environmental penalties, we anticipate that the environmental protection payments we make will decrease overall with the enactment of this new legislation.

Our balance sheet, prepared in accordance with IFRS, contains provisions for environmental payments (which take into account probable liabilities that can be reasonably estimated). Such provisions

have been made in accordance with what we believe is a reasonable and prudent policy that takes into account payments made in prior years, among other factors. However, in Russia in particular, federal, regional and local authorities may enforce existing laws and regulations more strictly than they have done in the past and may impose stricter environmental standards or higher levels of fines and penalties for violations than those now in effect. Accordingly, we are unable to estimate the future financial impact of our environmental obligations with a high degree of certainty. However, we do not expect environmental obligations to have a material adverse effect on our future financial condition.

We have one trade union, the Gazprom Inter-Regional Trade Union Organization of Oil, Gas and Construction of the Russian Federation, to which 89.8% of our employees belonged as of April 1, 2004. We have entered into a corporate collective agreement with the union for 2004 through 2006 which, among other things, sets forth our health and safety procedures. Compliance with these obligations is monitored by the trade union. On the basis of a package of social and labor-related, organizational and technical, health-care and preventive, and sanitary and hygienic measures, we have developed and operate a unified labor protection and industrial safety management system and our subsidiary companies and organizations are developing labor protection agreements and financing their activities. Our obligations with respect to employee health and safety procedures did not change materially under our new agreement with the union, which replaced an agreement that expired at the end of 2003.

Litigation and Investigations

We are from time to time the subject of legal proceedings and other investigations in the ordinary course of our business.

In 2001, we received a request for information from the European Commission with respect to the destination clause in our contract with an Italian off-taker, under which the Italian off-taker is prevented from re-exporting gas that it purchases from us. During the course of consultations with us, the European Commission recognized the need to find economic alternatives to destination clauses that are viable for suppliers of natural gas. We have found such a solution with Eni and OMV, and are negotiating alternatives with another offtaker. We no longer include such clauses in new contracts.

OAO ANGK Neftegaspostavka (“Neftegaspostavka”) has filed two claims against us resulting from our refusal to grant Neftegaspostavka access to our pipelines, allegedly in breach of anti-monopoly regulation. The first claim, relating to claims arising in 1999, resulted in a judgment against us of RR177 million. The second claim, relating to claims arising in 2000, initially resulted in a judgment against us by the Moscow City Arbitration Court of RR726 million, reduced to RR480 million in September 2003. This judgment was dismissed and the claim against us rejected on appeal in March 2004. In general, OAO Gazprom remains confident that it conducts its operations, including making its pipelines available for third party use, in compliance with applicable anti-monopoly regulations.

Rosgazifikatsiya filed a claim against SR-DRAGA (our share registrar) to recover damages in the amount of RR717.2 million as a result of the alleged negligent performance of its obligations as a registrar in relation to one specific share transfer of 50 million of our shares that were owned by Rosgazifikatsiya in 2000. Under Russian law, we are liable for the actions of our registrar and accordingly were joined as a codefendant to the claim. The court of first instance ordered SR-DRAGA to pay RR539 million in settlement of the claim. After appeals by SR-DRAGA the Federal Arbitration Court of the Moscow Region overturned the decision of the court of first instance. Rosgazifikatsiya appealed the decision to the Supreme Arbitration Court, which remanded it for a new review in the court of first instance. Rosgazifikatsiya subsequently abandoned this suit. On appeal by the Ministry for Property Relations, the Higher Arbitration Court referred the matter for further review in the appellate court, which is now scheduled to occur on August 13, 2004. We believe the claims to be without merit and are vigorously defending against them.

On March 31, 2003, the Ministry of the Russian Federation for Antimonopoly Policy and Support of Entrepreneurship (the “MAP”) issued a decision finding conduct by Gazprom, Mezhhregiongaz and three regional trade houses to have violated the Federal Law “On Competition and the Limitation of Monopolistic Activities in Trading Markets.” The MAP found that the regional gas marketing companies had encouraged consumers to accept more expensive gas purchased on the electronic spot trading market, rather than available gas at the lower regulated prices. See “Marketing—Russia—Domestic Market Conditions.” As a result of these activities, Lipetskregiongaz, Kirovregiongaz and Chuvashregiongaz temporarily suspended their participation in electronic gas trading. The MAP also found that we had established internal gas transportation tariffs (i.e., tariffs for gas transported from one company to another

within our consolidated group) higher than those prescribed by the FEC. We were ordered to set our internal transportation tariffs at the rates established by the FEC, and we have now fully complied with this order.

On January 15, 2004, the MAP issued a decision finding that Gazprom, Mezhtregiongaz and the FEC had engaged in activities that limited competition in the household gas distribution market in the Krasnodar region. Our gas marketing subsidiaries refused to enter into gas supply agreements with regional gas distribution companies and instead entered into gas supply agreements directly with households, and the FEC delayed the review of tariffs for gas transportation by these regional gas distribution companies. The MAP ordered the cessation of these violations. Mezhtregiongaz has appealed the decision in the Moscow City Arbitration Court, and a hearing occurred in April 2004. On April 14, 2004, the Moscow City Arbitration Court ruled the MAP decision and order of January 15, 2004 invalid with respect to Mezhtregiongaz. On June 22, 2004, the appellate court changed this decision by the Moscow City Arbitration Court and declared the MAP decision and order as entirely without force and effect with respect to all parties.

We initially held a 51% stake in Nortgaz, a company that holds licenses for the development of the North Urengoiskoye field, through our subsidiary Urengoigazprom. Our initial stake was reduced to 0.5% in 2001 as a result of a court decision invalidating our participation in a share issuance by Nortgaz in 1999 on the basis that the value of the property that we contributed to the company had not been approved by the Nortgaz Board of Directors. We are currently attempting to reacquire the Nortgaz shares we lost as a result of this prior decision through further court actions. A hearing on the reorganization of ZAO Nortgaz into OOO Nortgaz is scheduled to occur in the Yamal-Nenets Arbitration Court. The Moscow City Arbitration Court dismissed our claim to invalidate the decision of the Ministry of Natural Resources with respect to the re-issuance of a license from Urengoigazprom to Nortgaz, restoration of Urengoigazprom's rights to use the North Urengoi field and restoration of Urengoigazprom's license on July 26, 2004. We are considering appealing this decision. We are also currently conducting settlement discussions with Nortgaz.

We were involved in a dispute over Stimul, an oil company in Russia. In connection with this dispute, Victory Oil B.V. commenced an arbitration in New York on March 22, 2004 under the auspices of the American Arbitration Association against Gazprom and its wholly-owned subsidiary OOO Orenburggazprom seeking U.S.\$200 million for alleged breach of a June 22, 2000 Investment Agreement between Victory Oil B.V., OOO Orenburggazprom, Stimul and Avalon International L.C. The parties have entered into a settlement agreement pursuant to which we have acquired an additional 12.8% interest in Stimul, and all claims have been withdrawn from all courts. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Acquisitions and Dispositions—Recent Developments."

These proceedings and investigations have not had, and are not expected to have, individually or in the aggregate, a material adverse effect on our business, operations and financial condition or on our ability to service our payment obligations under the Notes.

Employees

For the years ending December 31, 2003, 2002 and 2001, we had a weighted average of approximately 391 thousand, 323 thousand and 304 thousand employees, respectively. We have one trade union to which 89.8% of our employees belonged as of April 1, 2004. We have never experienced any strikes, work stoppages, labor disputes or actions that have affected the operation of our business and we consider our relationship with our employees to be good.

MANAGEMENT

The current members of our Board of Directors are as follows:

<u>Name</u>	<u>Position</u>	<u>Year of Birth</u>	<u>Term expires</u>
D. Medvedev	Chairman of the Board of Directors; Head of the Presidential Administration of the Russian Federation	1965	June 2005
A. Miller	Deputy Chairman of the Board of Directors; Chairman of the Management Committee	1962	June 2005
A. Ananenko	Deputy Chairman of the Management Committee	1952	June 2005
B. Bergmann	Chairman of the Executive Board of E.ON Ruhrgas AG	1943	June 2005
B. Fedorov	Head of the political movement "Russia, Ahead!"	1958	June 2005
F. Gazizullin	Former Minister of Property Relations of the Russian Federation	1946	June 2005
G. Gref	Minister for Economic Development and Trade of the Russian Federation	1964	June 2005
E. Karpel	Head of Gazprom's Economic Expertise and Pricing Department	1944	June 2005
V. Khristenko	Minister for Industry and Energy of the Russian Federation	1957	June 2005
M. Sereda	Head of Administration of Gazprom's Management Committee	1970	June 2005
I. Yusufov	Former Minister of Energy of the Russian Federation	1956	June 2005

The current members of our Management Committee are as follows:

<u>Name</u>	<u>Position</u>	<u>Year of Birth</u>	<u>Term expires</u>
A. Miller	Chairman of the Management Committee; Deputy Chairman of the Board of Directors	1962	May 29, 2006
A. Ananenko	Deputy Chairman of the Management Committee	1952	December 16, 2006
E. Vasilieva	Deputy Chairman of the Management Committee; Chief Accountant	1959	November 26, 2006
N. Guslisty	Deputy Chairman of the Management Committee	1933	September 26, 2007
Y. Komarov	Deputy Chairman of the Management Committee	1945	August 20, 2008
A. Kruglov	Deputy Chairman of the Management Committee—Head of Department of Finance and Economics	1969	June 19, 2007
A. Ryazanov	Deputy Chairman of the Management Committee	1953	November 26, 2006
S. Ushakov	Deputy Chairman of the Management Committee	1952	April 17, 2008
M. Akselrod	Management Committee Member; Head of Capital Construction Department	1946	November 26, 2006
B. Budzulyak	Management Committee Member; Head of Gas Transportation, Storage and Utilization Department	1946	June 18, 2006
K. Chuichenko	Management Committee Member; Head of Legal Department	1965	September 26, 2007
V. Golubev	Management Committee Member; General Director of OOO Gazkomplektimpex	1952	April 17, 2008
V. Ilyushin	Management Committee Member; Head of Department of Relationships with Regions of the Russian Federation	1947	September 26, 2007
A. Medvedev	Management Committee Member; General Director of Gazexport	1955	September 26, 2007
O. Pavlova	Management Committee Member; Head of Property Management and Corporate Relations Department	1953	January 5, 2009
V. Podyuk	Management Committee Member; Head of Gas, Gas Condensate and Oil Production Department	1946	September 26, 2007
V. Rusakova	Management Committee Member; Head of Strategy and Development Department	1953	September 4, 2008
K. Seleznev	Management Committee Member; Head of Marketing, Gas and Liquid Hydrocarbon Processing Department	1974	September 26, 2007

The business address for the Board of Directors and the Management Committee is 16 Nametkina Street, 117884 Moscow, Russian Federation.

Director Biographies

D. Medvedev. Dmitri Anatolievich Medvedev has been the Chairman of our Board of Directors since June 2002. Previously, Mr. Medvedev was the Chairman of the Board of Directors from June 2000 through June 2001 and our Deputy Chairman of the Board of Directors from June 2001 through June 2002. Mr. Medvedev is Head of the Presidential Administration of the Russian Federation (since 2003). He was First Deputy Head of the Presidential Administration of the Russian Federation (2000-2003), Deputy Head of the Presidential Administration of the Russian Federation (1999-2000) and Deputy Head of the Administration of the Government of the Russian Federation (1999).

A. Miller. Alexei Borisovich Miller has been the Deputy Chairman of our Board of Directors since June 2002 and the Chairman of our Management Committee since May 2001. He was appointed to his position as Chairman of the Management Committee by the Government of the Russian Federation, our major shareholder. Mr. Miller is also Chairman of the Board of Directors of Joint Stock Bank Gazprombank (since June 2002). Mr. Miller previously served as a member of the Board of Directors of Closed Joint Stock Company Russian Company for the Reclamation of the Shelf (2002-2003); Deputy Minister of Energy of the Russian Federation (2000-2001); Chairman of the Supervisory Council of Joint Stock Company EuRoPol GAZ (March-June 2002); Chairman of the Board of Directors of Joint Stock Company Nord Transgaz (2001-2002); Chairman of the Board of Directors of Open Joint Stock Company Vostokgazprom (2001-2002); and General Director of the Open Joint Stock Company Baltiiskaya Truboprovodnaya Sistema (Baltic Pipeline System) (1999-2000).

A. Ananenko. Alexander Georgievich Ananenko has been a member of our Board of Directors since June 2002 and the Deputy Chairman of our Management Committee since December 2001. Mr. Ananenko is also a member of the Board of Directors of Joint Stock Bank Gazprombank (since April 2000); a member of the Board of Directors of Open Joint Stock Company Zapsibkombank (since April 1997); a member of the Supervisory Board of Wintershall AG (since 2002); and Chairman of the Supervisory Board of EuRoPol Gaz (since 2003). Mr. Ananenko previously served as General Director of Limited Liability Company Yamburggazdobycha (1997-2001) and Chairman of the Board of Directors of Open Joint Stock Company Vostokgazprom.

B. Bergmann. Burckhard Bergmann has been a member of our Board of Directors since 2000. He is nominated to our Board of Directors by E.ON Ruhrgas AG, one of our major shareholders. Mr. Bergmann has been the Chairman of the Executive Board of E.ON Ruhrgas AG since June 2001, and was previously Deputy Chairman. He also serves as the Chairman of the Board of Directors of Closed Joint Stock Company Gerosgaz and a member of the Executive Board of E.ON AG. He is also a member of numerous supervisory boards, including the Supervisory Board of Allianz Lebensversicherungs-AG, serves as the Chairman of the Supervisory Board of VNG-Verbundnetz Gas AG and Mittel-Europäische Gasleitungsgesellschaft mbH and is a member of the Central Consulting Committee of Commerzbank AG.

B. Fedorov. Boris Grigorievich Fedorov has been a member of our Board of Directors since July 2000. He is also a member of the supervisory board of the Savings Bank of Russia (since July 1999). Mr. Fedorov was a member of the Board of Directors of Russian Joint Stock Company UES (1999-2001); Chairman of the Board of Directors of Unified Financial Group (through 1998); and Chairman of the Board of Directors of Vostok-Zapad Bank from (1997-1998). He has also served as Head of the political movement "Russia, Ahead!" since 1999.

F. Gazizullin. Farit Rafikovitch Gazizullin has been a member of our Board of Directors since June 1998. He was the Chairman of our Board of Directors from June 1998 through June 1999. Mr. Gazizullin is also a member of the Board of Directors of Open Joint Stock Company FSK UES (since January 2002) and a member of the Board of Directors of Open Joint Stock Company SO-TsDU UES (since June 2002). Mr. Gazizullin was Minister for Property Relations of the Russian Federation (2000-2004). He previously served as Minister for State Property of the Russian Federation (1997-2000).

G. Gref. German Oskarovitch Gref has served as a member of our Board of Directors since June 1999. From 1998-2000 he was First Deputy Minister for State Property of the Russian Federation. Since 2000 he has served as Minister for Economic Development and Trade of the Russian Federation. Mr. Gref also serves as a member of the Board of Directors of RAO UES (since 2001), Open Joint Stock Company FSK UES (since 2002) and Open Joint Stock Company SO-TsDU-UES (since 2003). In 2003 he was a member of the Board of Directors of Open Joint Stock Company for Project Privatization. Previously, Mr. Gref was a member of the Board of Directors of Open Joint Stock Company Sheremetyevo (2001 – 2003). Mr. Gref served as the representative of the Russian Federation in Open Joint Stock Company NK

Rosneft (2000 – 2003). He was the Chairman of the Center for Strategic Developments Fund (1999 – 2003) and served as a member of the Boards at Open Joint Stock Company Syvazinvest (1999 – 2003) and Open Joint Stock Company Aeroflot – Russian International Airlines (1999 – 2003).

E. Karpel. Elena Evgenyevna Karpel has served as a member of our Board of Directors since June 2004. She has been the Head of our Economic Expertise and Analysis Department since 1997. Ms. Karpel also serves as a member of the Boards of Directors of Joint Stock Company Latvias Gaze and Joint Stock Company Armrosgazprom, and is a member of the Administrative Council of AO Overgaz Inc. Ms Karpel was a member of the board of Directors of Joint Stock Company Volta until 2003.

V. Khristenko. Victor Borisovich Khristenko has been a member of our Board of Directors since 2000. Mr. Khristenko has been the Minister for Industry and Energy of the Russian Federation since March 2004. Mr. Khristenko is a member of the Boards of Directors of Open Joint Stock Company AK Transneft (since 2000), Open Joint Stock Company SO-TsDU-UES (since 2002), Open Joint Stock Company FSK UES (since 2002), RAO UES (since 2003) and Open Joint Stock Company International Consortium for Management and Development of Ukrainian Gas Transportation Systems (since 2003). Mr. Khristenko served as Deputy Prime Minister of the Russian Federation from 2000 to 2004, including serving as Acting Prime Minister from February 24, 2004 to March 5, 2004. He was a member of the Boards of Directors of Joint Stock Company Magnitogorsk Metallurgical Combine (2001 – 2002). From 1999 to 2000 he served as First Deputy Prime Minister of the Russian Federation, and in 1999 he was acting state-secretary of the First Deputy Minister of Finance of the Russian Federation. Mr. Khristenko served as First Deputy Minister of Finance of the Russian Federation (1998-1999), and he served as Deputy Prime Minister of the Russian Federation in 1998.

M. Sereda. Mikhail Leonidovich Sereda has been a member of our Board of Directors since June 2002 and Head of Administration of our Management Committee since July 2001. Mr. Sereda is also a member of the Board of Directors of Joint Stock Company Global Bank for Values Circulation (since August 2001); a member of the Supervisory Board of WIEH (since March 2002); a member of the Supervisory Board of WINGAS GmbH (since March 2002); a member of the Board of Directors of Gazprom UK Ltd. (since April 2002); a member of the Board of Directors of Joint Stock Bank Gazprombank (since June 2002); a member of the Board of Directors of Open Joint Stock Company Vostokgazprom (since June 2002); and the Managing Director of Limited Liability Company Gazprom Finance B.V. (since July 2002). Mr. Sereda serves as Chairman of the Board of Directors of Closed Joint Stock Company Gaztelekom (since 2003); a member of the Board of Directors of Open Joint Stock Company Krasnodargazstroï (since 2002); a member of the Board of Directors of Closed Joint Stock Company Zarubezhneftegaz (since 2003); a member of the Board of Directors of Open Joint Stock Company AK Sibur (since 2003); a member of the Board of Directors of Temrukmortrans (since 2003); a member of the Management Board of Joint Stock Company Panrusgaz (since 2003) and Chairman of the Board of Directors of Open Joint Stock Company Volgogradneftemash (since 2003). Mr. Sereda was the Deputy Head of Branch BTS of Open Joint Stock Company Verhnevolzhskie Magistralnye Nefteprovody (Verhnevolzhsk Trunk Pipelines) (May-July 2001); Deputy General Director for Finance of Open Joint Stock Company Baltic Pipeline System (then Branch BTS of Open Joint Stock Company Verhnevolzhsk Magistralnye Nefteprovody (Verhnevolzhsk Trunk Pipelines) (1999-2001).

I. Yusufov. Igor Khanukovich Yusufov has been a member of our Board of Directors since June 2003. Mr. Yusufov has been Chairman of the Boards of Directors of Open Joint Stock Company NK Rosneft and Open Joint Stock Company AK Transnefteproduct since 2003. He has also been a member of the Boards of Directors of RAO UES of Russia, Open Joint Stock Company AK Transneft, Open Joint Stock Company CO-TsDU UES and Open Joint Stock Company FSK UES since 2003. Mr. Yusufov served as Minister of Energy of the Russian Federation from 2001 through March 2004. He previously served as General Director of the Russian Agency for Government Reserves.

Management Committee Biographies

A. Miller. See “—Director Biographies.”

A. Ananenkov. See “—Director Biographies.”

E. Vasilieva. Elena Alexandrovna Vasilieva has been a Deputy Chairman of our Management Committee, and our Chief Accountant since September 2001. Ms. Vasilieva is also a member of the Board of Directors of Open Joint Stock Company Lazurnaya (since June 2002); a member of the Board of Directors of Closed Joint Stock Company Yamalgazinvest (since June 2002); a member of the Board of Directors of Joint Stock Bank Gazprombank (since June 2002); a member of the Board of Directors of

Gazprom UK Ltd. (since April 2002); a member of the Supervisory Board of Slavrusgaz (since November 2002); and a member of the Board of Directors of Open Joint Stock Company Gazprom-Media (since 2003). Ms. Vasilieva previously was Deputy Head of the Management Board's Administration and Assistant to the Chairman of the Management Board of Gazprom (2001) and the Chief Accountant of Open Joint Stock Company Baltic Pipeline System and the Chief Accountant of Branch BTS of Open Joint Stock Company Verhnevolzhsk Trunk Pipelines (1999-2001).

N. Guslisty. Nikolai Nikiforovich Guslisty has been a member and Deputy Chairman of our Management Committee since April 1997. He is also Chairman of the Board of Directors of Limited Liability Company Gazprommedstrakh (since April 1998) and Chairman of the Board of Directors of Commercial Bank Olimpiiskii (since February 1998). Mr. Guslisty was Chairman of the Boards of Directors of Limited Liability Company Volgogradneftemash and of Open Joint Stock Company Lazurnaya (1996-2002) and was a member of the management and General Director of PKP Gazcompromselstroi (1992-1997).

Y. Komarov. Yuri Alexandrovich Komarov has been a Deputy Chairman of the Management Committee since 2002 and a member of the Management Committee since 1998. Mr. Komarov has been Chairman of the Boards of Directors of Closed Joint Stock Company Gerosgaz (since 2002) and Closed Joint Stock Company KazRosGaz (since 2002). He has been a member of the Supervisory Boards of WIEH GmbH and Vingas GmbH (since 1999). Mr. Komarov is the Chairman of the Board of Directors at Closed Joint Stock Company Gaztransit; Chairman of the Board of Directors of Joint Stock Company Yugrosgaz; Chairman of the Board of Directors of Closed Joint Stock Company Zarubezhneftegaz; and Managing Director of BSPPC. He previously served as Head of our Foreign Relations Department (1998-2002).

A. Kruglov. Andrei Vyacheslavovich Kruglov has been Deputy Chairman of the Management Committee – Head of Department of Finance and Economics since April 2004 and a member of our Management Committee since 2002. Mr. Kruglov has been Managing Director of Gazprom Finance B.V., as well as a member of the Boards of Directors of Limited Liability Company KB Gazenergoprombank and Open Joint Stock Company Belgazprombank since 2002. He has also been a member of the Boards of Directors of AB Gazprombank, Open Joint Stock Company Sogaz, Limited Liability Company TsentrKaspNeftegaz and Limited Liability Company Gaztechleasing since 2003. He has also served as Head of our Department of Finance and Economics since 2003, and is a member of the Boards of Directors of Joint Stock Company Global Bank for Value Circulation (since September 2002) and of Open Joint Stock Company Sibur (since June 2002). He was Head of our Department of Corporate Finance (2002-2003); Deputy Director of OOO Invest-In (2001-2002); Head of Group of Financial and Credit Cooperation with Foreign Countries and International Organizations, Head of the Group of Foreign Trade and Investments of the Department for Foreign Economic Cooperation of the Committee for Foreign Relations of the St. Petersburg Administration (1995 to 2001); and an inspector of management of the international operations of BNP-Dresdner Bank (Russia) (1994 to 1995).

A. Ryazanov. Alexander Nikolaevich Ryazanov has been a Deputy Chairman of our Management Committee since November 2001. He also serves as Chairman of the Boards of Directors of Joint Stock Company Sibur, Joint Stock Company Volgogradneftemash; Joint Stock Company Salavatnefteorgsyntez. Mr. Ryazanov is Chairman of the Management Board of Joint Stock Company Slovrusgaz and a member of the Boards of Directors of Closed Joint Stock Company Zarubezhneftegaz, Closed Joint Stock Company KazRosGaz, Limited Liability Company Gazpromtrans and Joint Stock Company Zapsibgazprom. He is member of the Supervisory Committee of Joint Stock Company Gasum; a member of the Union of Participants of Limited Liability Company International Consortium for the Management and Development of the Ukrainian Gas Transportation System; and a member of the Supervisory Board of Joint Stock Company Moldovagaz. Mr. Ryazanov was a member of the Board of Directors of Open Joint Stock Company Vostokgazprom (from 2002-2003). Mr. Ryazanov served as a delegate to and Deputy Chairman of the Property Committee of the State Duma of the Federal Assembly of the Russian Federation from December 1999 through November 2001. He was a delegate to the duma of the Tyumen region and a deputy of the duma of the Khanty-Mansiisk autonomous region (1999); and General Director of Open Joint Stock Company Surgutskii Gazopererabatyvayushii Zavod (Surgut Gas-Processing Plant) (1994-1999).

S. Ushakov. Sergey Konstantinovich Ushakov has been a Deputy Chairman of our Management Committee and General Director of the Security Service of Gazprom since February 2003. Mr. Ushakov has also served as Chairman of the Council of the Non-Government Pension Fund Gazfund since 2003. He was Deputy Director of the Federal Protection Services from 2002 until February 2003 and was employed by the Directorate of the Federal Securities Service for St. Petersburg and the St. Petersburg region from 1974 until 2002.

M. Akselrod. Mikhail Arkadievich Akselrod has been a member of our Management Committee and Head of our Capital Construction Department since April 2002, and Head of our Department of Investments and Construction from 2001 to 2002. He has been member of the Board of Directors of Limited Liability Company Iveco-Urals, a member of the Board of Directors of Limited Liability Company Temrukmortrans and a member of the Management Board of Joint Stock Company Nord Transgaz since 2003. Mr. Akselrod also serves as Chairman of the Board of Directors of Closed Joint Stock Company Informgazinvest (since August 2002); Chairman of the Board of Directors of Closed Joint Stock Company Yamalgazinvest (since July 2002); a member of the Board of Directors of Limited Liability Company Gazpromrazvitie (since October 2002); General Director of Closed Joint Stock Company Gazpromstroieniengineering (since 2002); Chairman of the Board of Directors of Closed Joint Stock Company Kostromatrubinvest (since April 2002); Chairman of the Board of Directors of Open Joint Stock Company Spetsavtotrans (since June 2002); Chairman of the Board of Directors of Open Joint Stock Company Tsentrgaz (since April 2002); a member of the Board of Directors of Open Joint Stock Company Druzhba (since June 2002); a member of the Board of Directors of Open Joint Stock Company Zapsibgazprom (since May 2002); a member of the Board of Directors of Open Joint Stock Company Zavod po Proizvodstvu Trub Bolshogo Diametra (since May 2002); Chairman of the Board of Directors of Open Joint Stock Company Krasnodargazstroii (since May 2002); a member of the Management of Joint Stock Company Turusgaz (since February 2002). He previously served as Deputy Director (1999-2000), Director for Investments and Construction (2000-2001) and Director for Use of Stations (2001) of Open Joint Stock Company Lenenergo and President of Company Trade House Yappilya (from 1995-1999).

B. Budzulyak. Bogdan Vladimirovich Budzulyak has been a member of our Management Committee since 1989 and Head of our Department of Gas Transportation, Storage and Utilization since 2001. He also previously served as Head of our Department of Gas Transportation and Utilization. Mr. Budzulyak is also Chairman of the Administrative Council of Joint Stock Company Overgaz Inc. (Bulgaria); Chairman of the Administrative Board of Joint Stock Company Topenergy (Bulgaria); Chairman of the Board of Directors of Closed Joint Stock Company Iskra-Avigaz; a member of the Board of Directors of Closed Joint Stock Company Yamalgazinvest; and Chairman of the Board of Directors of Closed Joint Stock Company Trade House Rus-gaz. Mr. Budzulyak is also a Chairman of the Board of Directors of Closed Joint Stock Company Gaz-Oil and a member of the Board of Directors of Closed Joint Stock Company Managing Company Perm Motorbuilding Company. He also served as a member of the Administrative Council of Joint Stock Company Promgas (Italy) (2001-2002); a member of the Management Board of the company Joint Stock Company Panrusgas (Hungary) (2001-2002); a member of the Supervisory Board of Joint Stock Company EuRoPol GAZ (2001-2002); Chairman of the Board of Directors of Closed Joint Stock Company Gaztelekom (2001-2002); Chairman of the Board of Directors of Open Joint Stock Company Gazcom (2001-2003); Chairman of the Board of Directors of Limited Liability Company Gazpromenergo (2001-2003); a member of the Board of Directors of Open Joint Stock Company Vostokgazprom (2001-2002); Chairman of the Board of Directors of Open Joint Stock Company Tomskgazprom (2001-2002); Chairman of the Board of Directors of Closed Joint Stock Company AKB Moscovsky Vekselny Bank (2001-2002); and Chairman of the Board of Directors of AOOT Universal Exchange "Russian Gas (2002-2003)."

K. Chuichenko. Konstantin Anatolievich Chuichenko has been a member of our Management Committee since September 2002 and Head of the Legal Department since May 2001. Mr. Chuichenko has been Chairman of the Board of Directors of Closed Joint Stock Company SR-Drag since 2003 and a member of the Supervisory Board of Joint Stock Company STG EuRoPol GAZ since 2004. Mr. Chuichenko is also Chairman of the Board of Directors of Closed Joint Stock Company Gazpromstroieniengineering; a member of the Board of Directors of Closed Joint Stock Company TNT-Teleset (since July 2002); Chairman of the Board of Directors of Open Joint Stock Company Gazprom-Media (since July 2002); Chairman of the Board of Directors of Open Joint Stock Company Zapsibgazprom (since May 2002); a member of the Board of Directors of Open Joint Stock Company Lazurnaya (since June 2002). He was member of the Boards of Directors of Limited Liability Company Gazpromrazvitiye (from 2002) and Open Joint Stock Company Gazprommedstrakh (2002-2003) and a member of the Moscow branch of the International St. Petersburg Bar Association (1997-2001).

V. Golubev. Valeri Alexandrovich Golubev has been a member of our Management Committee since June 2003. He has served as the General Director of Limited Liability Company Gazkomplektimpex since February 2003. Mr. Golubev is a member of the Board of Directors of Limited Liability Company Gaztechleasing. From 2002 to 2003 he served as the representative of the Legislative Assembly of the Leningrad Region in the Federal Council of the Federal Assembly of the Russian Federation. He was

Chairman of the Tourism Committee of the St. Petersburg Administration (1999 to 2002) and Head of the Vasileostrovski Administrative District of St. Petersburg (1993 to 1999).

V. Ilyushin. Viktor Vasilievich Ilyushin has been a member of our Management Committee since 1997 and the Head of our Department for Relationships with Regions of the Russian Federation since 1998. He has been a member of the Board of Directors of Open Joint Stock Company Salavatnefteorgsyntez (since 2003). Mr. Ilyushin was also a member of the Board of Directors of Joint Stock Company Gazprommedstrakh (2002-2003). He was a member of the Board of Directors of Open Joint Stock Company Gazprom—Media in 2001.

A. Medvedev. Alexander Ivanovich Medvedev has been a member of our Management Committee since 2002. He is the General Director of Gazexport. Mr. Medvedev was the Director of Company IMAG GmbH (1997, 1998-2002) and Vice-President of Open Joint Stock Company Vostochnaya Neftyanaya Kompaniya (1997-1998). Mr. Medvedev has been a member of the Board of Directors of Closed Joint Stock Company Gerosgaz since 2002. Since 2003, he has been a member of the Counsel of founders of GBH-Gas und Warenhandels GmbH, President of the Supervisory Board of Joint Stock Company Fragas, Chairman of the Administrative Board of Joint Stock Company Promgas, Chairman of the Supervisory Board of VIEEX GmbH, a member of the Board of Directors of Joint Stock Company GasCop, a member of the Supervisory Board of Vingas GmbH, Chairman of the Management Board of Joint Stock Company Panrusgas, a member of the Board of Directors of Open Joint Stock Company Sogaz, a member of the Management Board of Slavrusgaz, a member of the Supervisory Board of Joint Stock Company STG EuRoPol GAZ, a member of the Supervisory Board of Donau Bank, President of the Board of Directors of Joint Stock Company Prometheus Gas, a member of the Management Board of Joint Stock Company Turusgaz, a member of the Board of Directors of Closed Joint Stock Company Zarubezhneftegaz, a member of the Supervisory Board of Overgaz Inc., Chairman of the Board of Directors of AKB Sovfintrade and a member of the Supervisory Board of Joint Stock Company Gas-Trading.

O. Pavlova. Olga Petrovna Pavlova has been a member of our Management Committee since 2004 and Head of our Property Management and Corporate Relations Department since 2003. Ms. Pavlova has been Chairman of the Board of Directors of Limited Liability Company Agrisovgaz since 2004. Previously, she served as Deputy Head of the Economic Management of the Presidential Administration of the Russian Federation (2002-2003) and Senior Lecturer of the Department of Civil Law at St. Petersburg State University (1997-2002).

V. Podyuk. Vasili Grigorievich Podyuk has been a member of our Management Committee and Head of our Gas, Gas Condensate and Oil Production Department since August 1997. He is also a member of the Board of Directors of Closed Joint Stock Company Informgazinvest (since June 2002). Mr. Podyuk has been Chairman of the Board of Directors of Limited Liability Company Tsentra Kaspneftegaz and a member of the Board of Directors of Limited Liability Company Achimgaz since 2003. Mr. Podyuk was a member of the Board of Directors of Open Joint Stock Company Commercial Bank Severgazbank (2001-2002); a member of the Board of Directors of Open Joint Stock Company Sibur (2001-2002); a member of the Board of Directors of Gazprom UK Ltd. (1999-2002); and Chairman of the Supervisory Council of Open Joint Stock Company Cherepovetskii Azot (2000-2001).

V. Rusakova. Vlada Vilorikovna Rusakova has been a member of our Management Committee and Head of our Strategy and Development Department since 2003. She was previously Head of our Department for Forecasting Growth Strategies (1998-2002). Since 2003 she has also served as chair of the board of directors of Open Joint Stock Company Promgaz; a member of the boards of directors of Joint Stock Company Latvias Gaze and Open Joint Stock Company Krasnoyarskgazprom; a member of the Management Committee of Joint Stock Company Nord Transgaz; and a member of the Board of Directors of Open Joint Stock Company Krasnoyarskgazprom.

K. Seleznev. Kirill Gennadievich Seleznev has been a member of our Management Committee since September 2002 and is Head of our Gas and Liquid Hydrocarbon Marketing and Processing Department. He has been General Director of Limited Liability Company Mezhhregiongaz (since 2003). He is also Chairman of the Board of Directors of Closed Joint Stock Company Armrosgazprom (since June 2002); Chairman of the Board of Directors of Closed Joint Stock Company Sevmorneftegaz (since August 2002); a member of the Board of Directors of Joint Stock Company Latvias Gaze (since June 2002); a member of the Board of Directors of Sibur (since June 2002); a member of the Board of Directors of Rosshelf (since May 2002); and a member of the Board of Directors of Open Joint Stock Company Druzhba (since June 2002). He is a member of the Boards of Directors of Closed Joint Stock Company KazRosGaz (since

2002), Closed Joint Stock Company Gas-Oil (since 2002), Open Joint Stock Company Vostokgazprom (since 2003), Open Joint Stock Company Salavatnefteorgsintez (since 2003), a member of the Union of Participants of Limited Liability Company International Consortium for the Management and Development of the Ukrainian Gas Transportation System (since 2003) and Chairman of the Board of Directors of Limited Liability Company KB Gazenergoprombank (since 2003). He was Deputy Head of the Administration of the Management Committee and assistant to the Chairman of the Management Committee of Gazprom (2001 to 2002); Head of the Tax Group of the Open Joint Stock Company Baltic Pipeline System and the Head of Branch BTS of Open Joint Stock Company Verhnevolzhskie Magistralyne Nefteprovody (Verhnevolzhsk Trunk Pipelines) (2000 to 2001); Chief Specialist of the Group for the Coordination of Investment Activities of Open Joint Stock Company St. Petersburg Sea Port (1999 to 2000); and leading Securities Specialist of the Stock Operations Department of Open Joint Stock Company Investment and Finance Group Management-Investments-Development (1998-1999).

Description of our Management

In accordance with the Joint Stock Companies Law and our Charter, we are governed by our General Meeting of Shareholders, Board of Directors, Management Committee and the Management Committee Chairman. The General Meeting of Shareholders is our highest governing body and, among other things, elects our Board of Directors. In practice, our Board of Directors is responsible for formulating our strategy and the Management Committee is responsible for implementing the strategy and managing the Company on a day-to-day basis.

General Meeting of Shareholders

The General Meeting of Shareholders takes place annually, usually in June. The following decisions can be taken only by the General Meeting of Shareholders: amendments to the Charter, the reorganization or liquidation of the Company, the election of the members of our Board of Directors and Audit Commission, determination of the quantity, category, nominal price, number of authorized shares, increases in the charter capital (where such decision is reserved for the General Meeting of Shareholders by law and by the Charter), reduction of the charter capital, approval of the annual report and annual accounts, approval of large transactions and transactions that involve interested parties (in accordance with the terms of Chapters X and XI of the Joint Stock Companies Law).

Board of Directors

The Board of Directors is responsible for the general management of our activities. The Board of Directors must consist of a minimum of nine persons; at present, it has 11. Three members of the Board of Directors currently hold positions in the Government or in the Presidential Administration, and a total of five members of the current Board of Directors were nominated by the Government. The Chairman of the Management Committee, a member of the Management Committee and a member of our administration were all elected to the Board of Directors.

The powers of our Board of Directors include the following: to determine the priorities of our operations; to approve annual budgets; to call General Meetings of Shareholders and to determine the agenda for such meetings; to determine the record date for General Meetings of Shareholders and for the payment of dividends; to increase our charter capital (except where such increase is within the competence of the General Meeting of Shareholders); to issue bonds or other securities in accordance with the Joint Stock Companies Law; to appoint our executive bodies (i.e., the Management Committee and the Chairman of the Management Committee); to decide on early termination of the powers of these bodies; to nominate candidates for the position of Deputy Chairman of the Management Committee; to determine the remuneration of the Chairman and members of the Management Committee; to recommend the size of dividends; to use the reserve and other funds; to create branch and representative offices; to specify the means of effecting transactions; to adopt decisions on certain major transactions and certain “interested party” transactions (except such major or interested party transactions, the approval of which is within the competence of the General Meeting of Shareholders); and to establish the terms of cooperation with subsidiaries and organizations of which Gazprom holds stock and equity participations.

Members of the Board of Directors are elected by the shareholders through a system of cumulative voting until the next annual General Meeting of Shareholders and may be re-elected any number of times. The General Meeting of Shareholders may also terminate the authority of all members of the Board of Directors. Members of the Management Committee may not comprise more than one-quarter of the

Board of Directors and there must be at least nine Directors at all times. The Chairman of the Board of Directors is elected by the members of the Board of Directors by a majority vote of all members of the Board of Directors and may be re-elected at any time by a special resolution requiring at least a two-thirds majority. The Chairman of the Management Committee cannot simultaneously serve as the Chairman of the Board of Directors.

Management Committee

The Management Committee and the Chairman of the Management Committee manage our day-to-day affairs. The Chairman and members of the Management Committee are appointed by the Board of Directors for a term of five years. The Board of Directors has the right to terminate the authority of any Management Committee members as well as the Chairman of the Management Committee.

The competence of the Management Committee includes: (i) development of forward-looking plans and principal programs, including our annual budget and investment programs, preparation of reports on the implementation of those programs for submission to our Board of Directors; (ii) organization of gas flow management and management of the UGSS; (iii) organizing control over the development of our current and prospective plans and programs; (iv) securing the organization and reliability of our bookkeeping accounts and the timely preparation of the annual report and other financial reports; and (v) presenting information about our activities for the use of shareholders, creditors, and the media.

The Management Committee meets at least twice every month in accordance with a schedule which is approved by the Chairman of the Management Committee.

Chairman of the Management Committee

The Chairman of the Management Committee has authority to act in our name without power of attorney, present our interests, approve staff, issue orders and decrees, give instructions to be carried out by all the employees of Gazprom, and issue internal documents with respect to the current activities with the exception of internal documents which are within the competence of our other management organs.

Additional Information about our Directors and Management Committee Members

Directors' and Officers' Compensation

Our shareholders determine the compensation of directors at each General Meeting of Shareholders. Our Charter does not contain any provisions directly relating to the power of directors to approve remuneration (including pensions or other benefits) for themselves or any other member of our Board of Directors.

In the year ended December 31, 2003, we paid compensation (salaries and bonuses) to our directors and members of the Management Committee of RR243 million, as compared to RR143 million in the year ended December 31, 2002.

Share Ownership of Directors, Management Committee Members and Employees

The aggregate direct ownership of shares by the members of our Management Committee and Board of Directors was 0.0135% and 0.0035%, respectively, at June 30, 2004.

SHAREHOLDING STRUCTURE

As of December 31, 2003 our charter capital was RR118,367,564,500, consisting of 23,673,512,900 shares with a nominal value of RR5 each.

Pursuant to Government Resolution No. 654 of May 30, 1997, our shares are traded in Russia on the Moscow Stock Exchange, the St. Petersburg Stock Exchange, the Yekaterinburg Stock Exchange and the Siberian Stock Exchange.

We have held shareholders' meetings since 1995. The number of our shareholders has decreased from 1,030,002 in 1995 to 470,209 as at May 7, 2004.

Presidential Decree of the Russian Federation No. 529 of May 28, 1997 limited foreign equity participation in the Company to 9% of our shares. Presidential Decree of the Russian Federation No. 943 of August 10, 1998 authorized the sale of a further 5% of our shares to foreign shareholders. Only 2.5% out of the 5% authorized has been sold, and therefore the current level of foreign equity participation is currently 11.5%. The Gas Supply Law also limits foreign shareholdings in our charter capital to 20%.

In 1996, we placed shares representing 1.98% of our charter capital on the foreign markets in the form of American Depositary Shares ("ADS"). Due to the restrictions on foreign equity ownership that prevent the purchase of our shares by foreign participants in the domestic market, the issue of ADSs created a dual market in our shares, with the ADSs trading at a substantial premium over our shares in the domestic market. In 1999, Ruhrgas (now E.ON Ruhrgas) acquired 1% of our shares in the form of ADSs. Between December 2000 and January 2001 an additional 1.44% of our shares were sold to foreign investors in the form of ADSs. As of December 31, 2003, 4.42% of our shares are held in the form of ADSs. Our ADSs are currently listed on the London Stock Exchange. In April 2001, President Putin established a working group to examine ways in which to liberalize the current dual market in our shares.

The following table summarizes our shareholding structure as at December 31, 2003:

<u>Shareholders</u>	<u>%</u>
Russian Federation ⁽¹⁾	38.4
Our subsidiaries ⁽²⁾	16.2
Foreign shareholders other than our subsidiaries ⁽³⁾	6.9
Other ⁽⁴⁾	<u>38.5</u>
Total	<u>100.0</u>

Notes:

- (1) Five of the 11 members of our Board of Directors are representatives of the state.
- (2) Includes (i) 4.58% held by Gazprom Finance B.V., Gazprom's wholly-owned financial vehicle, which shareholding is intended to be used to secure Gazprom's liabilities and issue derivative financial instruments and (ii) 3.17% held by the Gazprom pension fund. Our subsidiaries are entitled to vote the shares they own. Changes in the ownership of our shares by our subsidiaries can occur as a result of trading activity conducted in the ordinary course of business by certain of our subsidiaries.
- (3) Includes E.ON Ruhrgas holdings of (i) 2.5% of Gazprom shares acquired through a privatization auction which was held pursuant to Presidential Decree No. 1316 of October 31, 1998 and (ii) 1% in the form of ADSs.
- (4) Includes shares held by our employees.

CERTAIN TRANSACTIONS

Interested Party Transactions under Russian Law

Russian law requires a company that enters into transactions with certain types of its affiliates that are referred to as “interested party transactions” to comply with special approval procedures. Under Russian law, an “interested party” includes (i) members of the board of directors or the collegial executive body of the company, (ii) the CEO of the company (including a managing organization or manager), (iii) any person that owns, together with that person’s affiliates, at least 20% of the company’s voting shares or (iv) a person who on legal grounds has the right to give mandatory instructions to the company, if any of the above listed persons, or a close relative or affiliate of such person, is:

- a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- the owner of at least 20% of the shares in a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction; or
- a member of the board of directors or the collegial executive body or the CEO of a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction or an officer of the managing organization of such company.

Transactions between members of a consolidated corporate group may be considered to be interested party transactions in certain circumstances, even when the companies involved are wholly-owned by the parent company.

Under applicable Russian law, interested party transactions are to be approved by a majority of the disinterested independent members of the board of directors or the shareholders of the company. Where all the directors are interested, or are not independent, or if the subject matter of the transaction exceeds 2% of the balance sheet assets of the company determined under Russian accounting principles (with certain exceptions for share placements), a majority vote of the disinterested shareholders of the company is required. The consequences of not having obtained any requisite interested party transaction approval are that the transaction in question could be declared invalid upon a claim by the company or any of its shareholders.

The Joint Stock Companies Law has contained a requirement with respect to the approval of interested party transactions since it became effective in 1996. Under Russian law, the lack of advance approval makes such a transaction voidable, but not void. However, certain judicial practice indicated that *post factum* approval of interested party transactions could be sufficient. In certain circumstances, such as when an interested party transaction was entered into between companies within our Group, the transaction was not always submitted to the boards of directors of the companies for advance approval. In 2000, 2001 and 2002, the Board of Directors of Gazprom approved certain transactions after, rather than before, they were consummated, and since 1996 the Board of Directors has never recognized any such transaction to be contrary to Gazprom’s interests or denied approval thereof *post factum*. Following the revisions to the Joint Stock Companies Law that came into effect on January 1, 2002 and which explicitly require an advance approval of interested party transactions, the judicial practice in this regard has also changed. In November 2003, the Highest Arbitration Court of the Russian Federation ruled that an interested party transaction must be approved before it is entered into. Thus, we have now ceased the practice of seeking *post factum* approvals of interested party transactions.

In order to facilitate business activities, Joint Stock Companies Law provides for the right of the general shareholders meeting of a company to approve interested party transactions that may be entered into by the company and a specified interested party in the ordinary course of business during the period between such general shareholders meeting and the annual general shareholders meeting. In 2004, the general shareholders meeting of Gazprom approved a number of interested party transactions that may be entered into by Gazprom in the ordinary course of its business. We have put in place procedures to monitor our interested party transactions, which include keeping a register of all such transactions and maintaining a database of information provided to us by our managers and directors about companies in which they or their families hold positions on management bodies or have equity interests that is updated on a quarterly basis. In addition, our Board of Directors adopted a resolution on September 27, 2002 whereby all transactions, whether with interested parties or not, involving, in particular, (i) interests or

participations that Gazprom or its subsidiaries hold in other companies; (ii) loans or other borrowings including guarantees by Gazprom having a value of greater than 0.3% of Gazprom's balance sheet assets determined under Russian accounting principles; and (iii) purchases or disposals by Gazprom or its subsidiaries of its fixed assets having a value greater than 0.3% of its balance sheet assets determined under Russian accounting principles require approval by our Board of Directors.

The foregoing information relates to transactions and agreements entered into by our parent company, OAO Gazprom. Our subsidiaries are subject to the same (or similar) legal requirements regarding the approval of interested party transactions.

Transactions with the Government of the Russian Federation

The Government directly owns 38.37% of our issued shares and holds five of the 11 seats on our Board of Directors. See "Risk Factors—Risks Relating to our Business—The Government has exercised, and can continue to be expected to exercise, a strong influence over our operations." In the normal course of our business, we sell gas to the Government and certain Government-owned or -controlled entities. The price at which we sell gas to these entities is the same regulated price at which we sell gas to other domestic consumers. Some of these entities fall into the category of consumers whom we are prevented from disconnecting pursuant to Government regulation. See "Risk Factors—Risks Relating to our Business—We are required to supply natural gas to customers in Russia at prices that are regulated by the Government and that are lower than international natural gas prices."

Transactions with Sroytransgaz

Certain former members of our Board of Directors and members of their families own or owned significant shareholdings in Sroytransgaz. In the mid-1990s, Sroytransgaz acquired about 5% of our shares as part of the settlement of a debt owed by us to Sroytransgaz for various construction services. The shares we transferred to Sroytransgaz were part of a 10% block of our shares that we and our subsidiary Gazfund acquired from the Government in 1995 for nominal value using privatization vouchers. This nominal value was used as the basis for determining the number of shares to be transferred to Sroytransgaz in respect of the debt we owed them for the construction services they provided. We subsequently challenged this transaction with Sroytransgaz and reached an understanding for the return of 4.83% of our shares. These shares were held jointly by three of our subsidiaries and Sroytransgaz pursuant to a joint activity agreement under which we had the right to vote the shares. As a result of our agreement with Sroytransgaz, in March 2003 Sroytransgaz transferred its stake in the joint activity to our subsidiary Gazprominvestholding in exchange for the Gazprom promissory notes with a face value of RR5,719 million and payable in January 2004 that we had contributed to the joint activity. We subsequently acquired 25.9% of the ordinary shares of Sroytransgaz for consideration of RR3,336 million, consisting primarily of promissory notes and cash, in April 2003. In August 2003, we acquired 0.2% of the ordinary shares and 15.54% of the preferred shares in Sroytransgaz for RR152 million. In the normal course of business, we enter into transactions with Sroytransgaz for the construction of pipelines in the Russian Federation which we outsource to third-party contractors through a tender process. Sroytransgaz has been a successful bidder in a large number of these tenders. Sroytransgaz rendered construction services to us in the amounts of RR30,842 million in 2003, RR35,649 million in 2002 and RR39,963 million in 2001.

Transactions with Interprokom

Family members of certain former members of our Board of Directors and a member of the Management Committee own significant interests in OOO Interprokom ("Interprokom").

Interprokom acts as our agent in the acquisition of equipment and is remunerated for those services based on a fixed commission percentage. Interprokom acted as an agent in our acquisition of RR4,260 million, RR8,021 million and RR11,611 million of equipment during 2003, 2002 and 2001, respectively. Commissions paid to Interprokom amounted to RR60 million, RR113 million and RR107 million during 2003, 2002 and 2001, respectively.

Gazprombank, our principal banking subsidiary, had outstanding import letters of credit issued on behalf of Interprokom and sub-contractors of Interprokom in the amount of RR1,159 million, RR6,982 million and RR9,751 million as of December 31, 2003, December 31, 2002 and 2001, respectively. These import letters of credit are issued to third-party suppliers in connection with the purchase of equipment by Interprokom on our behalf.

Transactions with Itera

Beginning around 1997, under our previous management, we entered into a number of transactions with Itera, a company that operates as an independent supplier of gas in Russia and the FSU. Certain of these transactions were questioned by some of our minority shareholders. The transactions involved acquisitions by Itera of interests in certain of our gas fields, tax arrangements involving Itera in the Yamal-Nenets and Nadym-Pur-Taz regions of Russia, purchases of gas from Itera, the transportation of gas owned by Itera through the UGSS, loans to Itera and guarantees of Itera indebtedness. In early 2001, our Board of Directors appointed our independent auditors, PricewaterhouseCoopers, to examine certain aspects of our financial and operating activities and, in particular, our operating relationship with Itera. PricewaterhouseCoopers presented its report (the “Report”) at a meeting of our Board of Directors in July 2001. Partly as a result of the Report, we intensified our asset reacquisition program through which we have reacquired assets from Itera. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Certain Acquisitions and Dispositions—Our asset reacquisition program.”

GAZEXPORT

OOO Gazexport (also known as Gazexport Ltd.) is a wholly-owned subsidiary of Gazprom. Gazexport was established in accordance with Resolution No. 39 of the Management of Gazprom dated April 9, 1997, and with Resolution No. 53 of the Gazprom Board of Directors of February 12, 1998. Gazexport is a limited liability company established under the laws of the Russian Federation. The company was registered by the Moscow Registration Chamber on May 12, 1999 (Certificate No. 028081). Gazexport's primary activities as set forth in Article 3 of its charter include the supply of natural gas, gas condensate, oil and refined products produced in Russia to foreign customers and, in the course of its ordinary commercial activities, the import of equipment and materials, provision of trading and construction services, and other foreign economic and other activities.

Gazexport is the successor to All-Union Foreign Trade Organization V/O Soyuzgazexport, which was established on April 23, 1973, and taken over by State Gas Concern Gazprom as a state foreign economic enterprise and renamed GVP Gazexport in December 1991. In 1993 GVP Gazexport became a subsidiary of RAO Gazprom, VEP Gazexport, and was reestablished in its present form in 1999.

Gazexport sells natural gas under an agency contract with Gazprom, pursuant to which Gazexport acts as Gazprom's "commission agent." Under Russian law, as a commission agent, Gazexport does not acquire legal title to the natural gas it sells on Gazprom's behalf, and may not acquire legal title to the proceeds generated by such sales. Legal title to such gas, and possibly to such proceeds, rests with Gazprom, and Gazexport earns a commission on the sales it makes on Gazprom's behalf.

Natural Gas Exports

Gazexport is responsible, as commission agent, for exporting natural gas on behalf of Gazprom to European and certain FSU export markets. Gazexport is currently the world's largest natural gas exporter by volume, and in 2003 sold 132.9 bcm of natural gas on behalf of Gazprom to European customers (128.6 bcm in 2002).

Current plans call for Gazexport's exports on behalf of Gazprom to be increased from the current level of approximately 130 bcm annually and for Gazexport to expand the geographic scope of its export markets. For example, Gazexport plans to engage in sales to the United Kingdom as the United Kingdom becomes an importer of natural gas. These plans are driven by a combination of anticipated increasing demand for natural gas in Europe and a desire to maintain predictable, reasonable and stable prices for natural gas. The ongoing creation of an integrated trans-European gas transportation system linking natural gas resources in Russia with consumers elsewhere in Europe is expected to open new opportunities for market development and performance.

Gazexport sells most of its natural gas on the basis of long-term gas supply contracts with major off-takers. Gazexport believes that long-term gas supply contracts are the best guarantee of reliable deliveries of natural gas to Europe and that they should remain the basis of Russian gas exports and the foundation of gas business in a liberalizing market. In addition, Gazexport owns assets in the technological and marketing infrastructure for gas trading in eight countries, which in some areas were established or acquired in advance of actual market liberalization. These activities are intended to enable Gazexport to develop and successfully implement a flexible export strategy, for example actively introducing new forms and methods of gas trading and responding quickly to changes in the market situation. Since 1999 Gazexport has participated in selling natural gas under spot transactions and pursuant to short-term contracts in the British and Belgian markets. In September 2003 Gazexport concluded an agreement with Wingas, WIEH, ZMB and Gazprom UK Trading to market up to 8 to 10 bcm annually in the U.K. market through 2013. This agreement was signed in addition to the framework agreement on short-term natural gas trading, which was concluded by Gazexport and Wingas in November 2002. In December 2003 Gazexport also signed a framework agreement with Gaz de France and Gazprom UK Trading on spot gas deliveries to the UK market.

Other Activities

In addition to its primary role as an exporter of Russian natural gas, Gazexport also:

- exports gas condensate, crude oil, petrochemicals, liquified hydrocarbon gases, and other products of the oil, gas, and petrochemical industry (non-natural gas export sales accounted for approximately 1.6% of Gazexport's net revenue under Russian Accounting Regulations in 2003);
- markets gas in new markets, optimizes export flows, and reviews and forecasts gas market opportunities;

- participates in developing and implementing gas and gas-based energy investment projects of Gazprom in Russia and abroad;
- serves as Gazprom's guarantor in its investment projects. Long-term contracts of Gazexport with European gas purchasers are used as the collateral of loans received by Gazprom to fund programs of revamping, upgrading, and developing export gas transportation systems in the Russian Federation;
- actively participates in other forms of cooperation with foreign partners.

Ensuring reliable and safe natural gas exports from Russia also requires ongoing development and upgrading of existing gas transportation networks, in addition to new pipelines to support increased export commitments. These modern, high-technology pipeline systems require significant investments. In order to generate the necessary funds for these investments, Gazexport actively participates in fundraising to develop and implement Gazprom's major international projects and in preparing new and servicing existing international loan agreements, for example by serving as a guarantor of Gazprom's commitments to major international financial institutions.

As a wholly-owned subsidiary of Gazprom organized as a limited liability company that is consolidated in our consolidated financial statements, Gazexport has not been required to prepare, and has not prepared, financial statements in accordance with IFRS or U.S. GAAP. Gazexport's non-consolidated statutory financial (accounting) reports are prepared in accordance with RAR and are not comparable to financial statements prepared in accordance with IFRS or U.S. GAAP. In these non-consolidated statutory financial (accounting) reports, the substantial majority of Gazexport's assets and liabilities consist of accounts receivable and accounts payable arising from its gas sales as Gazprom's commission agent, and substantially all its revenues consist of commissions on such sales.

Relationships with the Gas Buyers

Gazexport has had a commercial relationship with Gasunie since 1996, when the parties concluded a framework agreement that contemplated direct deliveries of Russian natural gas to The Netherlands as well as general cooperation in natural gas transportation and storage. Gazexport and Gasunie concluded a further agreement on cooperation in the areas of energy policy, potential projects, and the delivery of natural gas from Russia to The Netherlands. Gazexport and Gasunie signed a long-term gas supply contract in 2000, with deliveries commencing in 2001 through the Yamal-Europe pipeline.

Gazexport has delivered natural gas to Italy under a long-term contract with Eni (and its predecessor, Snam SpA) since 1974. Eni is also a participant in the Blue Stream project.

As of the date of this Offering Circular, Gazexport has never experienced material payment difficulties in respect of counterparty payments under the Gas Sales Contracts and has never been involved in material disputes with either Gas Buyer.

Financial Information

The financial information presented in this section has been derived from the non-consolidated statutory financial (accounting) reports of Gazexport prepared in accordance with RAR as of the dates and for the periods indicated and incorporated by reference herein to the extent required by the rules of the Luxembourg Stock Exchange. Accounting and reporting regulations in Russia are not comparable to those in Western countries and Russian financial statements have historically been prepared largely to comply with Russian tax requirements rather than to reflect fairly the financial condition of a company or its results of operations. Russian accounting legislation continues to develop and is subject to change on a regular basis. As a result, the information set forth below should not be read in conjunction with, and cannot be compared to, any of the other financial information presented elsewhere in this document, which has been prepared in accordance with IFRS and which relates to the Group as a whole. See "Risk Factors—Risks Relating to the Notes, the Transaction Structure and the Trading Market—The relative significance of the credit support provided by Gazexport should be considered, and the financial information Gazexport prepared according to Russian Accounting Regulations may not fairly reflect its financial condition or results of operations." These statutory financial (accounting) reports prepared in accordance with RAR are available at the offices of the Trustee and of the Paying and Transfer Agent in Luxembourg as set forth under "General Information."

Capitalization

The following table shows the non-consolidated cash and cash equivalents, short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable and total capitalization, consisting of long-term borrowings, long-term promissory notes payable and shareholders' equity, of

Gazexport as of December 31, 2003. The amounts were derived from the non-consolidated statutory financial (accounting) reports of Gazexport as of December 31, 2003 prepared in accordance with RAR.

The U.S. dollar amounts set forth below were not included in the non-consolidated statutory financial (accounting) reports of Gazexport prepared in accordance with RAR as of and for the years ended December 31, 2003, 2002 and 2001 and are provided for convenience only. They should not be construed as representations that the rouble amounts have been or could be converted into U.S. dollars at that or any other rate or as being representative of U.S. dollar amounts that would have resulted if we reported in U.S. dollars. The U.S. dollar amounts have been translated from the RR amounts at the rate of RR29.45 = U.S.\$1.00, which is the rate published by the Central Bank of Russia on December 31, 2003.

	As of December 31, 2003	
	(millions of RR)	(millions of U.S.\$)⁽¹⁾
Cash and cash equivalents	<u>13,226</u>	<u>449</u>
Short-term borrowings and current portion of long-term borrowings . . .	<u>—</u>	<u>—</u>
Short-term promissory notes payable . .	<u>—</u>	<u>—</u>
Total	<u>13,226</u>	<u>449</u>
Long-term borrowings	<u>—</u>	<u>—</u>
Long-term promissory notes payable . .	<u>—</u>	<u>—</u>
Shareholders' equity		
Charter capital	1,871	64
Legal reserve	203	7
Retained earnings and other reserves	6,024	205
Total shareholders' equity	8,098	276
Total capitalization ⁽²⁾	<u>8,098</u>	<u>276</u>

Notes:

(1) Unaudited.

(2) Totals may not add due to rounding.

There have been no material changes in the non-consolidated total capitalization of Gazexport since December 31, 2003.

Selected RAR Financial Information

The selected non-consolidated RAR financial information of Gazexport as of and for the years ended December 31, 2003, 2002 and 2001 has been extracted from the non-consolidated statutory financial (accounting) reports of Gazexport prepared on accordance with RAR as of and for the years ended December 31, 2003, 2002 and 2001, which are incorporated by reference herein to the extent required by the rules of the Luxembourg Stock Exchange.

The U.S. dollar amounts set forth below were not included in the non-consolidated statutory financial (accounting) reports of Gazexport prepared in accordance with RAR and are provided for convenience only. They should not be construed as representations that the RR amounts have been or could be converted into U.S. dollars at that or any other rate or as being representative of the U.S. dollar amounts that would have resulted if we reported in U.S. dollars. The U.S. dollar amounts have been translated from the RR amounts at the rate of RR29.45 = U.S.\$1.00, which is the rate published by the Central Bank of Russia on December 31, 2003.

	For the year ended December 31,					
	2003		2002		2001	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
	(amounts in millions)					
Profit & Loss Account						
Sales	165	4,856	73	2,136	61	1,803
Cost of sales	(20)	(585)	(13)	(385)	(11)	(317)
Sales and general business expenses ..	—	(4)	—	(3)	—	(2)
Gross profit	145	4,268	59	1,747	50	1,484
Interest income	3	80	3	84	4	111
Participation in other companies	21	607	7	208	5	143
Other	(21)	(634)	(3)	(83)	(10)	(306)
Income from operations	147	4,321	66	1,956	49	1,432
Profit tax expense	(53)	(1,555)	(24)	(665)	(25)	(749)
Net profit	94	2,766	43	1,291	23	683

	As of December 31,					
	2003		2002		2001	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
	(amounts in millions)					
Balance Sheet						
<i>Assets</i>						
Total current assets, of which	3,100	91,292	841	24,782	1,180	34,762
Cash and cash equivalents	449	13,226	103	3,033	140	4,135
Accounts receivable due within 12 months	2,616	77,029	723	21,305	1,032	30,391
Total non-current assets, of which ..	74	2,190	126	3,725	113	3,335
Long-term financial investments ..	61	1,805	105	3,093	105	3,097
<i>Liabilities</i>						
Total current liabilities, of which ...	2,900	85,381	787	23,175	1,148	33,811
Accounts payable	2,899	85,365	779	22,936	1,140	33,573
Total long term liabilities	—	3	—	—	—	—
Total equity and reserves	275	8,098	181	5,332	146	4,287

	For the year ended December 31,					
	2003		2002		2001	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
	(amounts in millions)					
Cash flow						
Cash at beginning of year	105	3,104	72	2,130	101	2,977
<i>Operating activities</i>						
Cash received	19,965	587,957	15,597	459,320	15,458	455,233
Cash used.	(19,669)	(579,265)	(15,591)	(459,174)	(15,487)	(456,085)
<i>Investing activities</i>						
Cash received	194	5,727	37	1,099	7	198
Cash used.	(147)	(4,324)	(15)	(432)	(6)	(173)
<i>Financing activities</i>						
Cash received	—	—	—	—	3	81
Cash used.	—	—	—	—	(6)	(167)
Cash at end of year	448	13,199	100	2,943	70	2,064

GASUNIE

The information presented in this section has been extracted and summarized from publicly available sources, including, in particular, the Company's website and most recent annual report.

N.V. Nederlandse Gasunie ("Gasunie") is a Dutch gas trading and transmission company which owns over 11,000 kilometres of Dutch gas pipelines. Its primary activities are buying, carrying and selling natural gas destined for the Dutch and export markets.

Overview

The Dutch state (directly or indirectly) owns 50% of Gasunie, the remainder being split between Royal Dutch Shell and Esso.

Until July 2, 2004, Gasunie's gas trading and transport operations were conducted through separate organisations within the group parent company Gasunie: Gasunie Trade & Supply and Gastransport Services (together with Gasunie, the "Gasunie Group"). The establishment of an independent transmission system operator, as required by new legislation was effected as of July 2, 2004. The new transmission system operator is a separate legal entity, Gastransport Services B.V., and is fully owned by Gasunie. Accordingly, Gastransport Services has been renamed Gasunie Technology & Assets. The majority of Gastransport Services' previous activities were transferred to Gastransport Services B.V. effective July 2, 2004. Gasunie Technology & Assets, remains owner of the grid.

For the year ended December 31, 2003, Gasunie had a net profit of €36 million from total revenues of €11.3 billion, generated by total sales of 77.0 bcm (export sales of 43.0 bcm and domestic sales of 34.0 bcm). Gasunie's capital expenditure for such period amounted to €97 million. Gasunie's registered head office is located at Concourslaan 17, P.O. Box 19, 9700 MA, Groningen, Netherlands. Gasunie prepares its financial statements in accordance with Dutch GAAP.

Throughout 2003, it was expected that Gasunie would be legally divided into a trading arm and a transport arm with effect from January 1, 2004, and that the trading arm would subsequently be split into two companies, one owned by Shell and the other by ExxonMobil. A letter from the Minister of Economic Affairs to the Lower House of the Netherlands Parliament ("Tweede Kaamer") dated October 15, 2003, stated that the split would not take place on January 1, 2004, and that the existing public-private partnership arrangements would continue unchanged for the time being.

Operations

Export sales of the Group by country

The following table shows the export sales of the Gasunie Group by country for the five years ended December 31, 2003:

	For the year ended December 31,				
	2003	2002	2001	2000	1999
			(bcm)		
Belgium	6.7	7.7	7.6	5.9	5.7
Germany	20.1	20.4	20.3	17.7	19.7
France.....	7.0	5.3	5.7	5.7	5.8
Italy.....	8.0	8.4	7.6	6.7	3.2
Switzerland	0.8	0.7	0.7	0.6	0.6
United Kingdom.....	0.4	0.5	0.5	—	—

Gasunie Trade & Supply

Gasunie Trade & Supply is a trading company buying and selling natural gas in the Netherlands and beyond.

Gastransport Services

Gastransport Services (the majority of the activities of which were transferred to Gastransport Services B.V. effective July 2, 2004) transports natural gas through the Dutch national pipeline grid. It is a transmission company, responsible for marketing gas transport capacity and related services in The Netherlands. Gastransport Services B.V. operates the gas transmission network in The Netherlands and also engages in research and development related to gas transport.

Operating Results of the Gasunie Group

Revenues and Costs

The following table shows the sales of the Gasunie Group for the five years ended December 31, 2003:

	For the year ended December 31,				
	2003	2002	2001	2000	1999
	(millions of €)				
Gas sales	11,274	10,725	12,028	8,976	6,290
Gas purchases	10,932	10,335	11,665	8,610	5,902
Operating expenses	485	484	404	381	400

The Gasunie Group's turnover for the year ended December 31, 2003 increased 5.1% to €11.3 billion as compared to €10.7 billion for the year ended December 31, 2002, due to rising average gas prices, which are linked to oil prices. The average selling price in 2003 was 14.6 euro cents per cubic metre of gas, an increase of 8% compared with 2002 (13.5 euro cents per cubic meter).

Sales

The following table shows the sales of the Gasunie Group for the five years ended December 31, 2003:

	For the year ended December 31,				
	2003	2002	2001	2000	1999
	(bcm)				
Total sales	77.0	79.4	80.7	73.0	75.4
Home-market	34.0	36.4	38.3	36.4	40.4
Export	43.0	43.0	42.4	36.6	35.0

Sales volumes were 3% lower for the year ended December 31, 2003 at 77.0 bcm of natural gas, as compared with 79.4 bcm of natural gas for the year ended December 31, 2002. Home-market gas sales fell approximately 7% from 36.4 bcm of natural gas for the year ended December 31, 2002 to 34.0 bcm for the year ended December 31, 2003, largely due to the ongoing liberalization of the gas market, which has increased the market share in The Netherlands of gas suppliers other than Gasunie Trade & Supply. Gas exports totalled 43.0 bcm, the same as in 2002.

Transport

The following table shows the volume of gas transported by the Gasunie Group for the five years ended December 31, 2003:

For the year ended December 31,				
2003	2002	2001	2000	1999
(bcm)				
87.2	87.2	86.6	83.3	84.1

Gas transport (including intercompany turnover with Gasunie Trade & Supply) and related services generated turnover of €1.4 billion in 2003, comparable to 2002. In 2003, Gasunie's network transported a total of 87.2 bcm of natural gas.

As at December 31, 2003, the Gasunie Group employed 1,446 full-time employees. Capital expenditure in 2003 amounted to €97 million, an increase of almost 17% as compared with 2002. A substantial proportion of such investment was allocated to expansion and modification of the gas transport network and information technology projects.

Operating Results of Gasunie Trade & Supply

General

Total sales in the year ended December 31, 2003 were 3% lower at 77.0 bcm (2002: 79.4 bcm) of natural gas. Domestic sales amounted to 34.0 bcm (2002: 36.4 bcm), while export sales stayed at 43.0 bcm as in 2002. The average selling price of natural gas increased by over 8% from 13.5 euro cents per cubic meter in 2002 to 14.6 euro cents per cubic meter in 2003.

Home-market sales

Total sales volume on the Dutch market was almost 7% lower at 34.0 bcm (2002: 36.4 bcm), reflecting lower sales by Gasunie Trade & Supply in the liberalized segment of the market, where other suppliers have gained market share.

Export sales

Gasunie Trade & Supply's total export sales volume in the year ended December 31, 2003 was unchanged, at 43.0 bcm, from the comparable figure for the year ended December 31, 2002.

Purchasing

Gasunie Trade & Supply purchased a total of 77.0 bcm of natural gas in the year ended December 31, 2003, 3% down from the comparable figure for the year ended December 31, 2002. Over 41 bcm was purchased from small fields (just over 53% of total gas purchases) and 27 bcm (over 35% of the total) from NAM-Groningen. Almost 9 bcm (approximately 12% of the total) was imported.

Operating Results for Gastransport Services

General

Gastransport Services reported total turnover of €1.4 billion in the year ended December 31, 2003, the same as the comparable figure for 2002. As at December 31, 2003, the contracted exit capacity stood at 34.9 mcm) (2002: 33.6 mcm) per hour. A total of 87.2 bcm was transported to the exit points during 2003, the same volume as in 2002.

Transport and Services

More than 40 active shippers submitted a total of 280 requests for quotations in 2003, compared with over 600 requests for quotations in 2002. The number of requests was lower because many shippers made direct bookings. A total of 518 contracts were signed in 2003 (2002: 375).

ENI

The information presented in this section has been extracted and summarized from publicly available sources, including, in particular, the company's website and most recent annual report.

Eni S.p.A. ("Eni"), is an Italian company which, with its consolidated subsidiaries (together, the "ENI Group"), is engaged in oil and gas, electricity generation, petrochemicals, oilfield services and engineering industries. The Eni Group operates in about 70 countries and had more than 76,000 employees as at December 31, 2003.

Overview

Eni, the former Ente Nazionale Idrocarburi, a public law agency, established by Law 136 of February 10, 1953, was transformed into a joint stock company by Law Decree 333 of July 11, 1992 published in the Official Gazette of the Republic of Italy no. 162 of July 11, 1992 (converted into law on August 8, 1992, by Law 359, published in the Official Gazette of the Republic of Italy no. 190 of August 13, 1992). The shareholders' meeting of August 7, 1992 resolved that the company be called Eni S.p.A. Eni is registered with the Companies Register of Rome, registered tax identification number 00484960588, VAT number 00905811006, R.E.A. Rome no. 756453. Eni is expected to remain in existence until December 31, 2100 but its duration can be extended by resolution of the shareholders.

Eni's registered head office is located at Piazzale Enrico Mattei 1, Rome, Italy. Eni branches are located in: (i) San Donato Milanese (Milan), Via Emilia, 1; (ii) San Donato Milanese (Milan), Piazza Ezio Vanoni, 1; and (iii) Gela (Caltanissetta – Sicily), Strada Provinciale, 82.

Eni's principal subsidiaries and divisions and related segments of operations are described below.

Operations

Exploration & Production

Agip S.p.A. was merged into Eni with effect from January 1, 1997 and became Eni's Exploration & Production division. Eni conducts its exploration and production activities through its Exploration & Production division and certain operating subsidiaries. Exploration & Production operations are principally conducted in Italy, North Africa, West Africa, the North Sea and the Gulf of Mexico but also in areas such as Latin America, Australia, the Middle and Far East and the Caspian Sea.

In 2003, Eni produced 1.56 mboe per day and as at December 31, 2003, it had proved reserves of 7,272 mboe with an average reserve life index of 12.7 years. For the year ended December 31, 2003, Eni's Exploration and Production segment had net sales from operations (including intersegment sales) of €12,746 million (€12,877 million for 2002) and operating income of €5,746 million (€5,175 million for 2002).

Gas & Power

Snam S.p.A. was merged into Eni with effect from February 1, 2002 and became Eni's Gas & Power division. Eni conducts its gas and electricity generation activities through its Gas & Power division and certain operating subsidiaries.

Eni is engaged in natural gas supply, transmission and distribution activities. In 2003, Eni's primary distribution natural gas sales totalled 50.93 bcm in Italy and a further 14.15 bcm in Europe. Primary distribution sales include sales to wholesalers, mainly local distribution companies, and large industrial and thermoelectric users which are supplied by a high and medium pressure gas pipeline network. Through Snam Rete Gas S.p.A. (a 50.07% owned, publicly traded subsidiary), Eni owns a high and medium pressure gas pipeline network for primary distribution consisting of approximately 30,000 kilometres in Italy. Outside Italy, Eni holds transmission rights over about 3,700 km of high-pressure pipelines. Snam Rete Gas S.p.A. transports natural gas on behalf of Eni and third parties.

In 2003, Eni transported 76.37 bcm of natural gas in Italy. Eni conducts its retail distribution ("secondary distribution") of natural gas in Italy through Italgas S.p.A., which is 100% owned by Eni and is the largest local distribution company in Italy by volume of sales. Eni's secondary distribution operation includes, almost exclusively, sales made by local distribution companies to commercial and residential users through a low pressure gas pipeline network. Eni also conducts secondary distribution activities outside Italy, including in Hungary through Tigaz Rt, in Argentina through Distribuidora de Gas Cuyana and in Slovenia through Adriaplin Doo.

Eni conducts its electricity generation activities through Enipower S.p.A., which owns and manages Eni's power stations in Livorno, Taranto, Mantova, Ravenna, Ferrera Erbognone and Brindisi with a total installed capacity of 1,900 MW as at December 31, 2003 and annual production sold of about 5,600 GWh. Eni owns other smaller power stations located in Eni's petrochemical plants and refineries, the production of which is used mainly for internal consumption. The accounts of these smaller power stations are reported within Eni's Refining & Marketing and Petrochemicals segments.

For the year ended December 31, 2003, Eni's Gas & Power segment had net sales from operations (including intersegment sales) of €16,068 million (€15,297 million in 2002) and operating income of €3,627 million (€3,244 million in 2002).

Refining and Marketing

AgipPetroli S.p.A. was merged into Eni with effect from January 1, 2003 to become Eni's Refining & Marketing division. Eni now conducts its refining and marketing activities through the Refining & Marketing division and certain operating subsidiaries. Eni's refining and marketing activities are located primarily in Italy, the rest of Europe and Latin America. Eni has a 37.5% share in the retail market for refined products in Italy through the brands "Agip" and "IP." In 2003, sales of refined products totalled 49.9 million tons, 30.6 million tons of which were sold in Italy. The total processing capacity of Eni's wholly-owned refineries amounts to 504,000 barrels per day as at December 31, 2003.

For the year ended December 31, 2003, Eni's Refining & Marketing segment had net sales from operations (including intersegment sales) of €22,148 million (€21,546 million in 2002) and operating income of €583 million (€321 million in 2002).

Petrochemicals

Eni's petrochemical activities commenced in the 1950s, when production of basic petrochemicals at Eni's Ravenna industrial complex began. Through Polimeri Europa S.p.A. and their subsidiaries, Eni operates in olefins and aromatics, basic intermediate products, chlorine derivatives, polyethylene, polystyrenes and elastomers. Eni's petrochemical operations are concentrated in Italy and in Western Europe. In 2002, Eni sold 5.5 million tons of petrochemical products.

For the year ended December 31, 2003, Eni's Petrochemicals segment had net sales from operations (including intersegment sales) of €4,487 million (€4,516 million in 2002) and an operating loss of €176 million (€126 million of loss in 2002).

Oilfield Services and Engineering Activities

Through Saipem S.p.A. (a 43% owned subsidiary of Eni) and its subsidiaries, Eni operates in offshore drilling and construction activities, in particular subsea pipe laying and floating production systems, and in onshore drilling and construction. Through Snamprogetti S.p.A. (a wholly owned subsidiary of Eni) and its subsidiaries, Eni provides engineering and project management services to the oil and petrochemical industries. As of December 31, 2003, Eni's Oilfield Services and Engineering segment had an order book with a value of €9,405 million.

For the year ended December 31, 2003, Eni's Oilfield Services, Construction and Engineering segment had net sales from operations (including intersegment sales) of €6,306 million (€4,546 million in 2002) and operating income of €311 million (€298 million in 2002).

Results of operations of the Group for the year ended December 31, 2003

Eni prepares its financial statements in accordance with Italian GAAP and as set out in its annual report and accounts. Eni's net income for the year ended December 31, 2003 totalled €5,585 million, an increase of €992 million (21.6%) over 2002. Operating income for 2003 totalled €9,517 million, an increase of €1,015 million or 11.9% over 2002.

Net sales from operations (revenues) for 2003 amounted to €51,487 million, representing an increase of €3,565 million or 7.4%, over 2002.

Capital expenditure for 2003 amounted to €8,802 million. Investments in the same period amounted to €4,255 million.

Net borrowings at December 31, 2003 amounted to €13,543 million, a €2,402 million increase over December 31, 2002. Financial requirements for capital expenditure and investments (€13,057 million) and the payment of dividends for 2003 estimated at €2,829 million were covered for the most part by the net cash provided by operating activities (€10,827 million). The debt-to-equity ratio (ratio of net borrowings to net equity including minority interest) increased from 0.39 at December 31, 2002 to 0.48 at December 31, 2003. Return on capital employed increased from 13.7% in 2002 to 15.6% in 2003.

SUMMARY OF GAS SUPPLY AGREEMENTS

Gas Sales Agreement between Gasunie and Gazexport as amended from time to time, status at March 31, 2004 (the “Gas Sales Agreement”)

<i>Buyer:</i>	N.V. Nederlandse Gasunie (“Gasunie”)
<i>Seller:</i>	Gazexport Ltd., Moscow (“Gazexport”)
<i>Signing Date:</i>	September 28, 2000
<i>Start of Delivery:</i>	October 1, 2001
<i>Contract Year:</i>	October 1 to October 1 (the “Contract Year”)
<i>Term:</i>	The Gas Sales Agreement expires on September 30, 2019 unless extended by agreement between Gazexport and Gasunie to September 30, 2022.
<i>Commitment:</i>	Gazexport has committed to sell, and Gasunie has committed to purchase from Gazexport, under the Gas Sales Agreement 64.5 bln normal cubic meters (Nm ³) ¹ of natural gas through September 30, 2019.
<i>Quantities:</i>	<p>(1) There is build-up period of the annual contract quantity (the “ACQ”) under the Gas Sales Agreement, the relevant parts of which apply as follows:</p> <p>October 1, 2004 to September 30, 2005 – ACQ equal to 3.5 bln Nm³</p> <p>October 1, 2005 to September 30, 2006 – ACQ equal to 3.8 bln Nm³</p> <p>(2) Thereafter there is a plateau period during which the ACQ is 4 bln Nm³.</p>
<i>Deliveries and Offtakes:</i>	<p>(1) Gasunie is required to take and pay for at least the ACQ each year, and may, or may be required by Gazexport to, purchase on a daily basis a larger share during the period from April through September and a smaller share during the period from October through March.</p> <p>The minimum offtake obligation is subject to review and downward adjustment in certain circumstances within the control of Gazexport and its affiliates.</p> <p>(2) If Gasunie, for any reason other than Force Majeure (as defined below under the heading <i>Force Majeure</i>) or the inability of Gazexport to make quantities available for delivery, takes less than the amounts it is obliged to take each day as described in (1) above, and such gas is made available, Gasunie shall pay 90% of the applicable contract price for the quantity which it was obliged to take but did not take (the “Take-or-Pay Provision”).</p> <p>(3) Gasunie has the right to take the quantities paid for, but not taken, under the Take-or-Pay Provision during the next Contract Year (the “Make-up Quantities”). The schedule and period of such off take is to be agreed with Gazexport. The Make-up Quantities, if taken, are to be paid for at 10% of the applicable contract price.</p> <p>(4) Default in deliveries: Should Gazexport for reasons other than Force Majeure (as defined below under the heading <i>Force Majeure</i>) or the inability of Gasunie to accept delivery:</p> <p>(i) Be unable to deliver the quantities of gas it is required to deliver each day under the Gas Sales Agreement, then Gasunie will receive discounts, expressed as a percentage of the contract price, which are higher if the delivery failure occurs during the period from October through March and lower if the delivery failure occurs during the period from April through September. The discount is applied on an amount of gas equal to the amount of gas that Gazexport has failed to deliver.</p> <p>(ii) Deliver during a Contract Year less than the ACQ for such year, then such quantities not delivered will be calculated at the end of that Contract Year and Gasunie will receive a discount, expressed as a percentage of the contract price, on an amount of gas equal to the amount of gas that Gazexport has failed to deliver.</p>

⁽¹⁾ A quantity of natural gas which at temperature of 273.15 K (0°C) and an absolute pressure of 101.325 kPa (1.01325 bar) contains an amount of energy of 39.78 MJ.

<i>Delivery Point:</i>	<p>The delivery point is at the Dutch/German border near the Dutch settlement Oude Statenzijl (the “Delivery Point”).</p> <p>The ownership and risk attaching to the gas, pass to Gasunie at the Delivery Point. Gazexport agrees to hold Gasunie harmless as to the title of the gas delivered.</p>
<i>Quality of Gas:</i>	<p>The gas to be delivered by Gazexport must meet certain chemical and physical specifications. These include chemical composition, gross calorific value, dew points, pressure and temperature. Gasunie may refuse to take gas that does not meet these specifications, and such gas shall be deemed to have not been made available by Gazexport.</p>
<i>Contract Price:</i>	<p>The contract price to be paid for natural gas is determined by a price formula in the Gas Sales Agreement. The price formula is based on commonly used price indices, e.g. prices of relevant oil products. These price indices are publicly available and are used in the price formula on a moving average based on a period of several months.</p>
<i>Payment:</i>	<p>Payment for gas is calculated in euro and is to be made in U.S. dollars. Gazexport invoices Gasunie on a monthly basis and annual basis.</p> <p>Late payments bear interest from the due date until the date of payment.</p> <p>In the event that Gasunie disputes an invoice it shall initially pay Gazexport the amount that Gasunie considers correct.</p>
<i>Force Majeure:</i>	<p>A party may be excused from the performance of its obligations (other than payment obligations) due to Force Majeure as defined below. The Gas Sales Agreement can be terminated unilaterally no earlier than six months after one party notifies the other of the occurrence of Force Majeure and subject to either party giving the other three months prior notice if the Force Majeure exceeds or is expected to exceed a period of six months and the parties fail to reach a solution.</p> <p>“Force Majeure” is defined to include, among other standard events, war, natural disasters, accidents, breakdowns, inability to obtain supplies, permits or labor to fulfill any obligation under the Gas Sales Agreement, strikes and any other industrial, civil or public disturbance, and any law or other restraint of any governmental body.</p>
<i>Liability:</i>	<p>The Gas Sales Agreement provides that neither party, other than in the event of gross negligence or willful misconduct, shall be liable to the other party for any indirect or consequential damage incurred by the other party.</p> <p>Gazexport is liable to Gasunie for damage to Gasunie’s facilities only to the extent such damage is caused by, and is direct consequence of, an identified deviation of the natural gas from the quality specifications set out in the Gas Sales Agreement.</p>
<i>Governing Law and Dispute Resolution:</i>	<p>The Gas Sales Agreement is governed by the Swiss Federal law.</p> <p>The parties may decide by mutual agreement to refer to an expert any claim, dispute or other matter arising out of or relating to the Gas Sales Agreement, excluding disputes and other matters regarding contract price which are to be referred to arbitration in Geneva in accordance with the Rules of Conciliation and Arbitration of the International Chamber of Commerce in Paris.</p>
<i>Assignment:</i>	<p>Neither Gazexport nor Gasunie may assign its rights and obligations under the Gas Sales Agreement without the consent of the other party, such consent not to be withheld or delayed if the assignor can show that the assignee is technically and financially capable of performing the obligations. Meanwhile, Gazexport has consented to the assignments by Gasunie of its rights under the Gas Sales Agreement in the event Gasunie will be restructured.</p>

**Contract for the Supply of Natural Gas
between Gazexport and Eni S.p.A. Gas and Power Division, as amended
(the “Contract”)**

<i>Buyer:</i>	Eni S.p.A. Gas and Power Division (as the legal successor of SNAM S.p.A.) (the “Buyer”)
<i>Seller:</i>	Gazexport Ltd. (as the legal successor of VEP Gazexport) (the “Seller”)
<i>Date of signature:</i>	The first contract was signed on December 10, 1969 and subsequently amended (the “First Contract”). The second contract was signed on February 25, 1976 and subsequently amended (the “Second Contract”). The First Contract and the Second Contract were consolidated in the Contract that was signed on November 8, 1996.
<i>Starting of delivery:</i>	May 1974
<i>Termination Date:</i>	The Contract terminates on December 31, 2012, unless it is extended up to December 31, 2017. The Contract is automatically extended up to December 31, 2017, unless either of the parties disagrees to the extension in writing at least two years before December 31, 2012. No disagreement shall be allowed for economic reasons.
<i>Contract Year:</i>	from January 1 to January 1 (the “Contract Year”)
<i>Commitment of the parties – Annual contract Quantity (the “ACQ”):</i>	7 billion Ncm ¹
<i>Daily delivery obligations of the Seller (the “DCQ”):</i>	$DCQ = \frac{ACQ}{365 \times 0.9}$
<i>Annual off-take Obligation of the Buyer – Annual Minimum Quantity (the “AMQ”):</i>	<p>0.95 x ACQ – D</p> <p>where D is</p> <ul style="list-style-type: none"> • any DCQ gas not made available by the Seller for reasons other than <i>force majeure</i> or agreed repairs; <p>and</p> <ul style="list-style-type: none"> • any DCQ quantities not taken by the Buyer due to <i>force majeure</i> or agreed repairs.
<i>Payment for quantities not taken:</i>	<p>Should the Buyer fail to take during any Contract Year the AMQ, the Buyer shall pay as advanced payment:</p> <ul style="list-style-type: none"> • for each cubic meter of gas off-taken short in respect of said AMQ, but above 0.80 x ACQ – D, an amount equal to 10% of the arithmetic average of the 12 monthly prices applicable during the said Contract Year; • for each cubic meter of gas off-taken short in respect of 0.80 x ACQ – D, but above 0.50 x ACQ – D, an amount equal to 40% of the arithmetic average of the 12 monthly prices applicable during the said Contract Year; • for each cubic meter of gas off-taken short in respect of 0.50 x ACQ – D, an amount equal to 75% of the arithmetic average of the 12 monthly prices applicable during the said Contract Year. <p>(“D” has the meaning ascribed in the description of the AMQ above)</p>

Note:

⁽¹⁾ Ncm is a cubic meter at 20°C and an absolute pressure of 760 mm Hg.

Make Up Gas:

The AMQ gas partially paid for but not taken may be taken at the election of the Buyer in any of the 10 subsequent Contract Years as part of the quantities which the Seller is obliged to deliver under the Contract in such Contract Year and in addition to the AMQ for that Contract Year and certain other quantities referred to in the Contract (the “Make Up Gas”). The Buyer shall pay for each cubic meter of Make Up Gas taken an amount equal to the following percentages of the price calculated as the arithmetic average of the 12 monthly prices applicable during the Contract Year in which the gas is actually taken:

- 90% for each cubic meter of gas already paid for at 10%;
- 60% for each cubic meter of gas already paid for at 40%;
- 25% for each cubic meter of gas already paid for at 75%.

Delivery point:

The delivery point is on the Slovak-Austrian border near Baumgarten (Austria).

Quality of gas:

The gas delivered must meet certain chemical and physical specifications including, *inter alia*, a minimum methane content equal to 85%, a gross calorific value in the range of 8600-9200 Kcal/Ncm, and a delivery pressure in the range of 50-70 kg/cm². In case of full stoppage of delivery and acceptance of gas due to *force majeure*, agreed repairs or reasons attributable to the Buyer, the Seller is not responsible for certain qualitative deficiencies in respect of the prescribed specifications of the gas (pressure, dew point and temperature) if the relevant problem is cured within the shortest period of time technically possible. In other cases, subject to certain tolerances and procedures provided for in the Contract, the Buyer has the right to stop taking the gas if the Seller is not able to meet the gas specifications set out in the Contract. Should the Buyer not exercise its right to stop taking the gas, the price of the gas will be reduced by 14.3%. A monthly report of the gas delivered and taken must be signed by the Seller and the Buyer within five days of the month following the month of delivery.

Deficient Quantity:

If the Seller is not able to make DCQ gas available during any month for reasons other than *force majeure* or agreed repairs, the quantity of gas not made available will be classified as deficient quantity (the “Deficient Quantity”) and a quantity of gas first invoiced after the month in which the deficiency occurred, equal to the Deficient Quantity, shall be paid at the contract price applicable in the month in which the deficiency occurred reduced by a discount of:

- 8% if the deficiency occurred during the months of October through March; and
- 4% if the deficiency occurred during the months of April through September.

Contract Price:

The contract price is determined for each month by a formula which will be used until one of the parties requests a price revision pursuant to the procedure described below. A price revision could not be requested before October 1, 1999 and has subsequently not been requested by either party.

The price formula is based on an indexation to a mix of prices of heavy fuel oils (high and low sulphur content) and gasoil which represent the energy market in Italy. The prices for the relevant oil products are publicly available and are used in the price formula on a moving average based on a period of several months.

<i>Price Revision:</i>	The contract price can be renegotiated if either party can show that circumstances in the gas market in Italy and Western Europe have substantially changed and if the price does not reflect the situation in the gas market of Italy and Western Europe. Price revision requests by a party may be made no earlier than three years from the date of that party's last request. If no agreement is reached between the parties within twelve months of the date of a price revision request, either party may proceed to arbitration and until an agreement is reached or an arbitration award is made, the previously agreed price provisions shall continue to apply.
<i>Payment:</i>	Payment shall be made in U.S. dollars by telegraphic transfer to the account of the Seller in the bank indicated by the Seller through the first class banks that are correspondents of the Seller's bank. The payment date is the thirtieth day of the month immediately following the month of delivery. The penalty for late payment is 0.03% of the invoiced amount for each day of delay (subject to a one-day grace period).
<i>Force Majeure:</i>	Only earthquake, flood, fire and explosion are considered to be <i>force majeure</i> circumstances. Should a delay in the delivery and taking of gas caused by <i>force majeure</i> circumstances last more than six months, then the parties shall enter into negotiations with the aim of reaching a mutually acceptable solution. The termination of the Contract due to <i>force majeure</i> circumstances shall be subject to the mutual consent of the parties.
<i>Law and Arbitration:</i>	Ad hoc arbitration in Stockholm; Swedish law applies. As a consequence of the provision for arbitration, jurisdiction of the ordinary courts is excluded.
<i>Assignment:</i>	Either party, subject to the other party's prior written consent, may assign the Contract in whole or in part. Assignment does not release the assignor from its obligations under the Contract.

DESCRIPTION OF TRANSACTION DOCUMENTS

The following is a summary of all material provisions of the Loan Agreement entered into between the Issuer and Gazprom, the Loan Guarantee entered into between the Issuer and Gazexport and the FAAFs dated July 29, 2004 entered into between each of Gazprom and Gazexport on the one hand and the Fiduciary, the Trustee, the Issuer, the F/X Bank and the Accounts Bank on the other. Copies of the Loan Agreement and FAAFs are available for inspection at the offices of the Paying and Transfer Agent in Luxembourg as further set out under “General Information.” Capitalized terms used in this summary and not otherwise defined in the Offering Circular are defined in “Definitions” below.

The Loan Agreement

Gazprom International S.A. (the “Issuer”) will enter into a loan agreement dated July 28, 2004 (the “Loan Agreement”) with Open Joint Stock Company Gazprom (“Gazprom”).

The Loan

The Issuer will agree under the Loan Agreement to lend Gazprom a principal amount to match the Notes (the “Loan”). Gazprom and the Issuer will agree that the Loan will bear interest at a rate and in currencies to match the interest due on the Notes and the Loan will amortise so as to match the Notes. The Loan will be made in a single drawdown on the Closing Date in a currency and on terms to match the Notes.

The obligation of the Issuer to make the Loan is subject to certain conditions precedent.

All payments of principal and interest on the Loan will be made at a time and in a currency to match the Notes (including, in certain circumstances, additional amounts to reflect certain increased costs of the Issuer, including any withholding tax on the Notes). Gazprom will repay the outstanding amount of the Loan prior to the final repayment of the Notes by the Issuer. The Loan is prepayable in circumstances which match early redemption of the Notes.

If an Event of Default or a Retention Event (each as defined below) has occurred and is continuing, the Issuer may, at its option, irrevocably require that the currency of the Loan, and repayments thereunder, be changed to Russian Roubles (“RR”) (indexed to the original currency of the Loan) (the “Rouble Repayment Election”). Thereafter, all payments by Gazprom under the Loan will be made in RR.

If, following the Rouble Repayment Election, the F/X Bank does not provide a Rate of Exchange in accordance with the FAAFs, this shall constitute a “Loan Payment Suspension Event.” If a Loan Payment Suspension Event has occurred and is continuing, no payment will be made under the Loan Agreement unless and until the Loan Payment Suspension Event is terminated. However, such non-payment shall not constitute an Event of Default but will constitute a Holding Event (see “—Description of the Fiduciary Arrangements”).

Increase in Cost

Gazprom will agree that if, due to any change in, or introduction of, any tax, law or regulation, (i) the cost to the Issuer in making or maintaining the Loan is increased, (ii) any amount due to the Issuer is reduced or, (iii) the Issuer makes any payment or forgoes any interest or other return in relation to the Loan then, subject to certain formalities, Gazprom will pay to the Issuer such additional amount as will be necessary to compensate for such increased cost or reduced receipt. The Issuer will agree to co-operate with Gazprom to enable Gazprom to reduce its obligations to pay the additional amounts described above.

Representations and Warranties

Gazprom will represent and warrant to the Issuer that:

- (i) Each of Gazprom and Gazexport is duly organised and incorporated and validly existing under the laws of the Russian Federation and has the power and legal right to own its property, to conduct its business as currently conducted and to enter into and to perform its obligations under the Transaction Documents to which it is a party and, in the case of Gazprom, to borrow the Loan and, in the case of Gazexport, to give the Loan Guarantee;

Gazprom has taken all necessary corporate, legal and other action required to authorise the borrowing of the Loan on the terms and subject to the conditions of the Loan Agreement, Gazexport has taken all necessary corporate, legal and other action required to authorise the giving of the Loan Guarantee on the terms and subject to the conditions of the Loan Guarantee and each of Gazprom and Gazexport has taken all necessary corporate, legal and other action required to authorise the execution and delivery of the other Transaction Documents to which it is a party and all other documents to be executed and delivered by it in connection with such Transaction Documents to which it is a party, and the performance of such Transaction Documents to which it is a party in accordance with their respective terms.

- (ii) The Transaction Documents to which it is a party have been duly executed and delivered by Gazprom and each constitutes a legal, valid and binding obligation of Gazprom enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, (a) to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law); (b) with respect to the enforceability of a judgment whether there is a treaty in force relating to the mutual recognition of foreign judgments; and (c) to the fact that gross-up provisions may not be enforceable under Russian law.
- (iii) The execution, delivery and performance of each Transaction Document to which it is a party by Gazprom will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of Gazprom or (iii) any agreement or other undertaking or instrument to which Gazprom is a party or, with certain exceptions, which is binding upon Gazprom or any of its assets, nor result in the creation or imposition of any Encumbrance on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument.
- (iv) All consents, authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of the Russian Federation required by Gazprom in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in evidence (subject to a Russian legal requirement to provide to a Russian court a duly certified translation thereof into Russian) of the Transaction Documents to which it is a party have been obtained or effected and are in full force and effect.
- (v) No event has occurred that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default or a default under any agreement or instrument evidencing any Financial Indebtedness of Gazprom, and no such event will occur upon the making of the Loan.
- (vi) Except as disclosed in this Offering Circular there are no judicial, arbitral or administrative actions, proceedings or claims pending or, to the knowledge of Gazprom, threatened, against Gazprom or any of its Principal Subsidiaries, the adverse determination of which could have a Material Adverse Effect.
- (vii) Except for Permitted Encumbrances, Gazprom and each of its Principal Subsidiaries has the right of ownership (as that expression is defined under the laws of the Russian Federation) to its property free and clear of all Encumbrances which if created could have a Material Adverse Effect.
- (viii) The most recent audited consolidated financial statements of Gazprom:
 - (a) were prepared in accordance with IFRS, as consistently applied; and
 - (b) save as disclosed therein, present fairly in all material respects the assets and liabilities as at that date and the results of operations of Gazprom during the relevant financial year.
- (ix) Except as disclosed in this Offering Circular, there has been no material adverse change since 31 December 2003 in the financial condition, results of business operations or prospects of Gazprom or the Group taken as a whole.

- (x) The execution, delivery and enforceability of the Transaction Documents to which it is a party is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein.
- (xi) Neither Gazprom nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to the Transaction Documents to which it is a party.
- (xii) Gazprom is in compliance in all material respects with all applicable provisions of law except where failure to be so in compliance would not have a Material Adverse Effect.
- (xiii) Neither Gazprom, nor any of its Principal Subsidiaries has taken any corporate action nor, to the best of the knowledge and belief of Gazprom, have any other steps been taken or legal proceedings been started or threatened in writing against Gazprom or any of its Principal Subsidiaries for its bankruptcy, winding-up, dissolution, external administration or re-organisation (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of its or of any or all of its assets or revenues.
- (xiv) There are no strikes or other employment disputes against Gazprom which are pending or, to Gazprom's knowledge, threatened in writing which could have a Material Adverse Effect.
- (xv) In any proceedings taken in the Russian Federation in relation to the Transaction Documents to which it is a party, the choice of English law, Luxembourg law, Swiss law or Swedish law, as the case may be, as the governing law of the Transaction Documents to which it is a party and any arbitration award obtained in England pursuant to Clause 14.10 of the Loan Agreement (provision for arbitration) in relation to the Transaction Documents to which it is a party will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and all other legal requirements in Russia.
- (xvi) Subject to sub-Clause 10.18.1 of the Loan Agreement (the Issuer's obligation to procure a certificate of domicile from the Luxembourg tax authorities), under the laws of the Russian Federation, it will not be required to make any deduction or withholding from any payment it may make hereunder.
- (xvii) Its execution of the Transaction Documents to which it is a party constitutes, and its exercise of its rights and performance of its obligations thereunder will constitute, private and commercial acts done and performed for private and commercial purposes.
- (xviii) It has no overdue tax liabilities which could have a Material Adverse Effect other than those which are disclosed in this Offering Circular or which it is contesting in good faith.
- (xix) All licences, consents, examinations, clearances, filings, registrations and authorisations which (i) are or may be necessary to enable Gazprom and any of its Principal Subsidiaries to own its assets and carry on its business and (ii) the absence of which could have a Material Adverse Effect are in full force and effect.
- (xx) Gazprom, and each of its Principal Subsidiaries, is in compliance with all Environmental Law except where failure to do so could not have a Material Adverse Effect.
- (xxi) Gazprom owns 100 percent of the shares of capital stock of Gazexport.
- (xxii) With respect to the Gas Sales Contracts,
 - (a) Each Gas Sales Contract is in full force and effect and constitutes the legal, valid and binding obligations of the parties thereto enforceable against such parties in accordance with its terms, subject to applicable bankruptcy, liquidation, insolvency and other similar laws relating to or affecting the enforcement of creditors' rights generally.
 - (b) Upon the execution and performance of the FAAFAs and any subsequent Assignment, each Gas Sales Contract shall continue in full force and effect without penalty or any other adverse consequence resulting from the execution, performance and enforcement of any such Assignment.
 - (c) None of Gazexport, Gazprom or, to the best of the knowledge and belief of Gazprom, any Gas Buyer is in material breach of any Gas Sales Contract to which it is a party. No

provision of any Gas Sales Contract prohibits or limits in any way the Encumbrances constituted by the Assignments (and any consent to assignment required under the terms of any Gas Sales Contract has been obtained).

- (d) Gazprom or Gazexport will have full legal and beneficial title to the gas supplied under each Gas Sales Contract at the point of delivery referred to therein for the passing of title to such gas. The Receivables arising under each Gas Sales Contract are, subject to the relevant Assignments, the full legal property of Gazprom or Gazexport, and such Receivables can be legally assigned by them pursuant to the relevant Assignments, subject to the receipt of the relevant Central Bank of the Russian Federation permission, which has been obtained.
 - (e) Neither Gazprom nor Gazexport has taken, directly or indirectly, any action which could reasonably be expected to cause or result in a material breach of any Gas Sales Contract to which it is a party.
 - (f) Neither Gazprom nor Gazexport has received any notice or has any reason to believe that any Gas Buyer intends to purchase gas under a Gas Sales Contract following the date of the Loan Agreement in an amount less than the minimum annual quantity of gas required to be purchased in accordance with the terms of such Gas Sales Contract.
 - (g) Gasunie has no right under the Gasunie Contract unilaterally to (i) change the terms of the Gasunie Contract. (ii) terminate the Gasunie Contract prior to September 30, 2019 (except following the occurrence of a “Force Majeure” as defined therein) or (iii) rescind the Gasunie Contract (other than in accordance with applicable law.
- (xxiii) On the Closing Date, no Encumbrance will exist over or in respect of any rights of Gazprom or Gazexport in respect of any Gas Sales Contract (including the rights and Receivables arising thereunder) and Gazprom is not aware of any such Encumbrance in respect of any such rights of the Gas Buyers and Gazprom will not have created an Encumbrance over any of the Accounts (or any monies standing to the credit of any of the Accounts), except as permitted by the Transaction Documents.
- (xxiv) The Security Documents create Encumbrances which are: (a) first ranking security interests in the form of a transfer of title as security (“*transfert de propriété à titre de garantie*”) under the Luxembourg law of August 1, 2001 on the transfer of title as security over the assets the subject thereof and will be effective before and during the liquidation, bankruptcy, insolvency or administration (or analogous proceedings) of Gazprom or Gazexport; (b) effective against all unsecured creditors of Gazprom or Gazexport and all third parties; and (c) not liable to be avoided or otherwise set aside on the liquidation, bankruptcy, insolvency or administration (or other analogous proceedings) of Gazprom or Gazexport, subject in each case to claims that are mandatorily preferred by applicable law.
- (xxv) Each Security Document creates (or, once entered into, will create) in favour of the Fiduciary for the benefit of the Issuer or the Trustee, as the case may be, the Encumbrance which it is expressed to create with the ranking and priority it is expressed to have in the form of a transfer of title as security (“*transfert de propriété à titre de garantie*”) under the Luxembourg law of August 1, 2001 on the transfer of title as security; and without limiting the above and paragraph (xxiv) above, Gazprom’s payment obligations under the Transaction Documents to which it is a party rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations that are mandatorily preferred by applicable law.
- (xxvi) Each Gas Sales Contract Summary is true, not misleading in any respect and includes all matters material to the Issuer’s assessment of the rights and obligations of Gazprom or Gazexport under the applicable Gas Sales Contract.
- (xxvii) Neither Gazprom nor Gazexport has outstanding nor is negotiating the entry into of any Relevant Gasunie Contract which could give rise to a material financial obligation by Gazprom and/or Gazexport to Gasunie and the exercise by Gasunie of its right of set-off reserved in the Notice and Acknowledgement in respect of the Gasunie Contract now or during the term of the Loan.

Covenants

Gazprom will covenant to the Issuer that for so long as any amount remains outstanding under the Loan Agreement:

- (i) **Negative Pledge.** Subject to “Security” below, neither Gazprom nor any Principal Subsidiary will create or permit to subsist any Encumbrance (other than a Permitted Encumbrance) upon or in respect of any of its undertakings, property, income, assets or revenues, present or future, to secure any Financial Indebtedness unless, at the same time or prior thereto, Gazprom’s obligations under the Loan Agreement are secured equally and rateably therewith or benefit from such other security or other arrangement, as the case may be, in each case to the satisfaction of the Issuer.
- (ii) **Maintenance of Authorisations.** Gazprom shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of the Transaction Documents to which it is a party or for the validity or enforceability thereof.
- (iii) **Mergers.** Gazprom shall not, without the prior written consent of the Issuer, enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed by applicable Russian legislation), or participate in any other type of corporate reconstruction and Gazprom shall ensure that no Principal Subsidiary enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation), or participates in any other type of corporate reconstruction if such reorganisation or other type of corporate reconstruction could have a material adverse effect on Gazprom’s ability to perform its obligations under the Transaction Documents to which it is a party or the validity or enforceability of the Transaction Documents to which it is a party or the rights or remedies of the Issuer under the Transaction Documents to which it is a party.
- (iv) **Disposals.** Gazprom shall not and Gazprom shall ensure that no member of the Group shall without the prior written consent of the Issuer (disregarding (i) sales of stock in trade in the ordinary course of business and assignments of or other arrangements over the rights or revenues arising from contracts for the sale of gas, gas condensate, crude oil or any other hydrocarbon products, (ii) any lease or related transaction and (iii) dispositions of assets or rights not related to the extraction, production, transportation, marketing or supply of gas) sell, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets (which for the avoidance of doubt excludes payments of cash, or other consideration, for the acquisition of any asset on normal commercial terms) which have the aggregate value in excess of U.S.\$1,000,000,000 or the equivalent thereof to a person that is not a member of the Group.
- (v) **Corporate Affairs**
 - (a) **Maintenance of Property.** Gazprom and each Principal Subsidiary will cause all property used in the carrying on by it of its business for the time being to be kept in good repair and working order as, in the judgment of Gazprom or any Principal Subsidiary, may be reasonably necessary so that the business may be carried on and the failure to keep such property in such condition would have a Material Adverse Effect.
 - (b) **Payment of Taxes and Other Claims.** Gazprom shall pay or discharge or cause to be paid or discharged, before the same shall become overdue, all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property, of Gazprom; provided that Gazprom shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS as consistently applied or other appropriate provision has been made or (b) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed U.S.\$100,000,000.

- (c) Corporate Existence. Subject to paragraph (iii) above, Gazprom shall do all things necessary to maintain its corporate existence, except where the failure to do so would not have a Material Adverse Effect.
 - (d) Maintenance of Insurance. Gazprom and any Principal Subsidiary shall keep those of their properties which are of an insurable nature insured with insurers who implement good business practices and are believed by Gazprom or such Principal Subsidiary, as the case may be, to be responsible against loss or damage to the extent that property of similar character is usually so insured by corporations in the same jurisdictions similarly situated.
- (vi) Gazexport
 - (a) Covenants. Gazprom will procure that Gazexport will not breach any of the covenants contained in Clause 4 of the Loan Guarantee.
 - (b) Ownership. Gazprom shall at all times own, free from all Encumbrances, at least 75 per cent. of the share capital of, and the voting rights and control in, Gazexport.
- (vii) Gas Sales Contract Amendments

Gazprom will not:

 - (a) agree to or make any amendment, modification, waiver or other change to any term of any Gas Sales Contract (other than immaterial amendments and waivers relating to any such agreement which relate to minor administrative or technical matters or are required by the parties thereto to improve the practical performance of their obligations thereunder if such amendments or waivers do not in any manner relate to the financial obligations of the parties under such agreement (each, a “Minor Amendment”) if such Minor Amendment is notified pursuant to paragraphs (xvi)(f) and (g));
 - (b) terminate, suspend, revoke, cancel, rescind or repudiate any Gas Sales Contract;
 - (c) set off any amount claimed due to it under any Gas Sales Contract; or
 - (d) consent to any assignment or other transfer of any Gas Buyer’s interests in the relevant Gas Sales Contract, subject to any transfer in connection with the proposed Gasunie reorganisation (provided that such transfer does not result in a breach of paragraph (ix)(b)),

other than as contemplated by “Additional Replacement Gas Sales Contracts, Gas Sales Contract Amendments and Reassignment of Gas Sales Contracts”. Each of the events described above (save for a Minor Amendment), are together referred to as a “Gas Sales Contract Amendment”.
- (viii) Pari Passu Ranking. Gazprom shall ensure that the claims of the Issuer against Gazprom under the Loan Agreement shall at all times rank at least *pari passu* in right of payment with the claims of all of Gazprom’s other present and future senior, unsecured, unsubordinated creditors, save for those creditors whose claims are mandatorily preferred by applicable law.
- (ix) Security
 - (a) Gazprom will not create, incur, assume or suffer to exist any Encumbrance upon any Gas Sales Contract, the Accounts or any rights it may have to receive payment from each Gas Buyer in respect of the relevant Gas Sales Contract, except as contemplated or permitted by the Security Documents.
 - (b) Gazprom shall at all times (a) maintain each of the Security Documents in full force and effect, (b) ensure that each of the security interests created thereunder continues to confer the security it created when originally granted and that the assignments by way of transfer of title as security (“*transfert de propriété à titre de garantie*”) thereunder continue to be effective and (c) ensure that each of the security interests and assignments by way of transfer of title as security (“*transfert de propriété à titre de garantie*”) created thereunder are perfected and, where applicable, duly registered as a first ranking security interest in accordance with applicable law (subject, in the case of the Gazprom Springing Assignment, to the priority of any Other Creditors). If for

any reason any Security Document fails to remain in full force and effect or confer the security it created when originally granted or is not perfected or ceases to rank as a first priority security, as described above (subject, in the case of the Gazprom Springing Assignments, to the priority of any Other Creditors) or, as the case may be, ceases to be a duly perfected transfer of title as security (“*transfert de propriété à titre de garantie*”), Gazprom shall promptly so inform the Issuer and the Trustee upon becoming aware of such failure, and provided that such failure is capable of remedy and cannot be attributed to fault on the part of Gazprom, Gazprom shall be given 10 Business Days to remedy such failure after written notice from the Issuer to Gazprom requiring it to remedy such failure (with a copy of any such notice to be delivered simultaneously to the Trustee and the Rating Agencies).

(x) Maintenance of Rating

Gazprom shall co-operate with the Rating Agencies and use all reasonable efforts to assist them in relation to their continued rating of the Notes, and will supply to the Issuer, the Trustee, the Fiduciary and the Rating Agencies promptly, such information in its possession or control as the Issuer, the Trustee, the Fiduciary or the Rating Agencies may reasonably request in relation thereto and, in the case of the Issuer, the Trustee and the Fiduciary is appropriate or necessary for them to respond to and/or implement any requirements of the Rating Agencies. It is understood that Gazprom shall be entitled to require the entry into of appropriate confidentiality undertakings with such parties in relation to such information.

Gazprom will use its best efforts to procure that the Rating Agencies, and/or their external counsel, will have access to the Gas Sales Contracts (and any added or replacement Gas Sales Contracts) and any documents related thereto within four business days of notification of such to Gazprom by a Rating Agency and that such access will be provided as often as such Rating Agency deems necessary. Gazprom further agrees to use its best efforts to make contracts and documents available to such Rating Agency on each occasion on which it is reviewing such, for at least three hours.

(xi) Security Balance

Gazprom shall (i) on or before the Closing Date, deposit or procure the deposit into the Debt Service Reserve Account of an amount equal to the Security Balance and (ii) ensure that if the amount standing to the credit of the Debt Service Reserve Account is at any time less than the applicable Security Balance, an amount sufficient to ensure that the amount standing to the credit of the Debt Service Reserve Account is at least equal to the Security Balance is deposited into the Debt Service Reserve Account within five Business Days of receiving notice from or on behalf of the Issuer of such deficiency pursuant to Clause 9 of the FAAFs.

(xii) Debt service

Gazprom shall ensure that sufficient amounts of the Contractual Currency are paid in accordance with Clause 6.1 of the Loan Agreement such that sufficient amounts of the currency of the Notes, as the case may be, are paid into, and are standing to the credit of, the Debt Service Account in accordance with Clause 6.1 of the Loan Agreement and Clause 8.1 of the Paying and Transfer Agency Agreement.

(xiii) Cover Ratios

If,

- (i) at any time the Debt Service Cover Ratio falls below 140 percent.; or
 - (ii) at any time the Debt Service Cover Ratio falls below 175 percent. and any Contract Volume Test is not met; or
 - (iii) at any time any Contract Volume Test is not met for 3 consecutive months; or
 - (iv) on any Payment Date the Six Monthly Ratio falls below 110 percent.;
- (each of (i), (ii), (iii) and (iv) above constituting a “Retention Event”), Gazprom shall promptly inform the Issuer.

Within 180 days of the occurrence of a Retention Event, Gazprom may:

- (a) prepay the Loan pursuant to Clause 5.3 of the Loan Agreement, if permitted thereunder; or

- (b) procure an assignment pursuant to the FX, Assignments, Accounts and Fiduciary Agreement in favour of the Fiduciary (for the benefit of the Issuer) of additional Receivables payable under one or more additional Gas Sales Contracts in accordance with “Events of Default—Additional, Replacement Gas Sales Contracts, Gas Sales Contract Amendments and Reassignment of Gas Sales Contracts”

(or any combination of the foregoing), in each case, in an amount and to the extent necessary to ensure that the relevant Cover Ratio is complied with. For purposes of determining whether the relevant Cover Ratio has been complied with in these circumstances, such Cover Ratio shall be calculated on a *pro forma* basis assuming that the relevant prepayment under (a) above or assignment under (b) above is effected on the first day of the relevant twelve-month period (in the case of the Debt Service Cover Ratio) or on the first day of the relevant six-month period (in the case of the Six-Monthly Ratio).

In the event that a Retention Event is outstanding for 180 consecutive days, however, this shall constitute an Event of Default pursuant to “Events of Default—paragraph (xx).”

“Debt Service Cover Ratio” means, on any date, the ratio (expressed as a percentage) of:

$$\frac{\text{Annual Gas Sales Contract Payments}}{\text{Annual Debt Service}}$$

“Annual Debt Service” means, on any date, (i) up to and including September 30, 2007, the amount of principal and interest in respect of the Loan payable under the Loan Agreement during the prior twelve-month period, and (ii) thereafter, the largest aggregate amount of principal and interest payable under the Loan Agreement on any two successive Payment Dates thereafter. Following the Rouble Repayment Election, such amount shall be calculated using the Currency Equivalent.

Notwithstanding the above, the first such calculation shall be made six months after the Closing Date and thereafter each month until the first anniversary of the Closing Date, and in respect of such period the relevant period set out above shall be the period (in months) from the Closing Date to the date of each such calculation. Following the first anniversary of the Closing Date the above will apply without modification.

“Annual Gas Sales Contract Payments” means, on any date, the aggregate of all payments credited to the Collection Account during the prior twelve-month period for gas volumes delivered under the Gas Sales Contracts.

The “Contract Volume Test” tests whether Gazprom and/or Gazexport have delivered 90 per cent. of the amount required to be delivered in accordance with the terms of the relevant Gas Sales Contract (i) for the twelve-month period immediately preceding the day of the calculation or (ii) following a failure to meet the Contract Volume Test that has been cured in the manner described below, until such date as the Contract Volume Test is met by reference to the preceding twelve month period as described in (i), for the one-month period immediately preceding the day of the calculation.

Failure to meet the Contract Volume Test shall be deemed to be cured if for two consecutive months after such failure, Gazprom and/or Gazexport delivers no less than 90 percent of the amount required to be delivered in accordance with the terms of the relevant Gas Sales Contract.

In relation to any other gas sales contract which, pursuant to “Events of Default—Additional, Replacement Gas Sales Contracts, Gas Sales Contract Amendments and Reassignment of Gas Sales Contracts,” is deemed a Gas Sales Contract for the purposes of the Loan Agreement, Contract Volume Test shall have any meaning confirmed by the Rating Agencies that may be required to ensure that the assignment, amendment or reassignment of such gas sales contract is effective, and in particular that the calculation of the Cover Ratios takes into account the Receivables under such additional gas sales contract, as the parties shall agree at such time.

“Six-Monthly Ratio” means, on any Payment Date, the ratio (expressed as a percentage) of:

$$\frac{\text{Semi-Annual Gas Sales Contract Payments}}{\text{Semi-Annual Debt Service}}$$

“Semi-Annual Debt Service” means, on any Payment Date, (i) up to and including the Payment Date in February 2007 the amount of principal and interest in respect of the Loan payable under the Loan Agreement during the prior six-month period, and (ii) thereafter the largest amount of principal and interest payable under the Loan Agreement on any Payment Date thereafter. Following the Rouble Repayment Election, such amount shall be calculated using the Currency Equivalent.

“Semi-Annual Gas Sales Contract Payments” means, on any Payment Date, the aggregate of all payments credited to the Collection Account during the prior six-month period for gas volumes delivered under the Gas Sales Contracts.

(xiv) Performance of obligations and non petition

- (a) Gazprom shall maintain in full force and effect, and timely and fully perform its obligations under, the Transaction Documents to which it is a party; and
- (b) Gazprom shall not assert any claim against, or otherwise file any petition in relation to the bankruptcy or administration of, the Issuer until all of the obligations of Gazprom under the Loan and the Gazprom Notes Guarantee and of Gazexport under the Loan Guarantee and the Gazexport Notes Guarantee, and all of the obligations of the Issuer under the Notes, have been irrevocably discharged in full.

(xv) Gas Sales Contract Summaries

If, unless due to a Minor Amendment, in relation to any Gas Contract Summary, any of the representations and warranties in “Representations and Warranties—paragraph (xxvi)” is at any time incorrect or if any amendment, modification or waiver is made to a Gas Sales Contract at any time, a revised summary of such Gas Sales Contract reflecting the current status of the relevant Gas Sales Contract shall be prepared by Gazprom and (unless the best efforts of Gazprom are unable to procure such participation) the relevant Gas Buyer and certified by Gazprom and (unless the best efforts of Gazprom are unable to procure such certification) the relevant Gas Buyer, as true and complete and not misleading in any respect and:

- (a) Gazprom shall provide any such revised summary to the Issuer (with a copy to the Rating Agencies) within 20 Business Days of such request of the Issuer; and
- (b) in the event such revised summary is prepared because of any amendment to or modification or waiver of the Gas Sales Contracts, such summary shall show the impact the amendment, modification or waiver will have (if any) on such Gas Sales Contract.

(xvi) Reports and Notification

- (a) Gazprom will furnish to the Issuer commencing with the year ending December 31, 2004, within nine months of the relevant year-end audited annual financial statements prepared in accordance with IFRS as consistently applied, including a report thereon by Gazprom’s certified independent accountants.
- (b) On each Payment Date (whether or not a Loan Payment Suspension Event has occurred and is continuing), Gazprom shall deliver to the Issuer, with a copy to the Rating Agencies, a written notice in the form of an Officer’s Certificate stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred and shall be continuing, what action Gazprom is taking or proposes to take with respect thereto.
- (c) Promptly upon Gazprom becoming aware thereof, Gazprom will provide the Issuer, with a copy to the Rating Agencies, with detailed information in respect of any changes in the circumstances relating to or affecting gas deliveries, sales or payments under any Gas Sales Contract where such changes have or would be reasonably likely to have a Material Adverse Effect.

- (d) On each Payment Date (whether or not a Loan Payment Suspension Event has occurred and is continuing) and as otherwise reasonably requested by the Issuer (and in such case, not later than 15 Business Days after the date of such request), Gazprom will provide the Issuer, with a copy to the Rating Agencies, with, a Cover Ratio Certificate evidencing the then applicable Cover Ratios.
 - (e) No later than 10 Business Days after an invoice has been issued to any Gas Buyer in relation to a Gas Sales Contract, Gazprom will provide the Issuer, with a copy to the Rating Agencies, with a copy of such invoice (which shall contain a clear indication of the amount specified in such invoice and the due date for payment of such invoiced amount but which may be otherwise edited to remove any price formula and volume information) and, upon the reasonable request of the Issuer, other information relating to the amount invoiced or the due date for payment of such invoiced amount (otherwise than in respect of any price formula or volume information).
 - (f) Gazprom will provide the Issuer, with a copy to the Rating Agencies, with reasonable details of any proposed Minor Amendment of any Gas Sales Contract (other than in respect of any proposed change to the pricing formula or volume information or any reduction specified below) at least 15 Business Days prior to agreeing to such Minor Amendment.
 - (g) Promptly upon becoming aware of the same, Gazprom will provide the Issuer, with a copy to the Rating Agencies, with reasonable details of any planned or actual amendment to any term of any Gas Sales Contract the result of which would be a decrease in the minimum annual quantity of gas required to be delivered thereunder.
 - (h) Promptly upon the same occurring, Gazprom will provide the Issuer, with a copy to the Rating Agencies, with detailed information in respect of any changes in the shareholding or ownership structure of Gazprom or Gazexport where such changes have or would be reasonably likely to have a Material Adverse Effect.
 - (i) Promptly upon Gazprom becoming aware thereof, Gazprom shall notify the Issuer, with a copy to the Rating Agencies, of any material breach of (or notice to terminate) any Gas Sales Contract by any party thereto and any set off or any counterclaim in excess of 10 percent of the amount of the relevant invoice made by any Gas Buyer relating to obligations under any Gas Sales Contract. At the request of the Issuer, Gazprom shall certify the absence of any of the events specified in this paragraph.
 - (j) Gazprom will on request of the Issuer provide the Issuer, with a copy to the Rating Agencies, with such further information, other than information which Gazprom determines in good faith to be confidential, relating to the transactions contemplated by the Transaction Documents and Gas Sales Contracts and the business and financial condition and operations of Gazprom and its Subsidiaries as the Issuer may reasonably require (including pursuant to Clauses 14.5, 14.12 and 14.13 of the Trust Deed).
- (xvii) Performance guarantee
- Gazprom unconditionally and irrevocably:
- (a) guarantees and assures to the Issuer that it will assume and discharge any obligations of Gazexport under the Gas Sales Contracts (or otherwise procure that such obligations are discharged), in the event that Gazexport is in default of its obligations, or otherwise does not perform under the Gas Sales Contracts to which it is a party; and
 - (b) agrees to fully indemnify the Issuer on demand against any loss incurred by it as a result of any default by Gazexport, or its failure to perform, under the Gas Sales Contracts to which it is a party.

For the purposes of this paragraph, certain standard guarantee provisions in the Loan Guarantee apply as if such provisions were set out in full herein and as if all references to the Guarantor were to Gazprom and all references to the Borrower were to Gazexport.

(xx) No COMI

Gazprom shall not establish a “centre of main interest” (“COMI”) within the meaning of EU Regulation 1346/2000 of 29 May 2000 on insolvency proceedings within the European Union.

(xxi) Relevant Gasunie Contract

Gazprom agrees forthwith upon it or Gazexport entering into a Relevant Gasunie Contract to notify the Rating Agencies of the entry into thereof and to supply the Rating Agencies with such information as they may reasonably request in connection with any review of the rating of the Notes which ensues.

Events of Default

Gazprom and the Issuer will agree that if one or more of the following events of default (each, an “Event of Default”) occurs and is continuing, the Issuer shall be entitled to the remedies set forth in “Default Remedies” below:

- (i) Except in the event that a Loan Payment Suspension Event has occurred and is continuing, Gazprom fails to pay within three Business Days any amount payable under the Loan Agreement as and when such amount becomes payable in the currency and in the manner specified in the Loan Agreement, provided that such default will not be an Event of Default if (i) it occurs by reason only of administrative or technical difficulties affecting the transfer of the funds due from Gazprom, (ii) Gazprom issued the appropriate transfer and payment instructions in sufficient time to permit the transfer and payment of the amount due to be made on its due date and (iii) the Issuer receives from Gazprom that amount within six Business Days after the due date for payment.
- (ii) Gazprom or Gazexport fails to perform or observe any of their respective other obligations under the Transaction Documents and (except where in any such case that failure is not capable of remedy when no such notices as is hereinafter mentioned will be required) that failure continues for the period of 30 days (or such longer period as the Issuer may permit) next following the submission by the Issuer to Gazprom and Gazexport of notice in writing requesting the same to be remedied.
- (iii) Any representation or warranty of Gazprom or Gazexport or any statement deemed to be made by Gazprom or Gazexport in the Transaction Documents or in any other document, certificate or notice delivered to the Issuer in connection with the Transaction Documents or the issue of Notes proves to have been inaccurate, incomplete or misleading in any material respect at the time it was made or repeated or deemed to have been made or repeated.
- (iv) Gazprom, Gazexport or any Principal Subsidiary (a) fails to pay any of its Financial Indebtedness as and when such Financial Indebtedness becomes payable, taking into account any applicable grace period or (b) fails to perform or observe any covenant or agreement to be performed or observed by it contained in any other agreement or in any instrument evidencing any of its Financial Indebtedness if, as a result of such failure, any other party to such agreement or instrument is entitled to exercise, and has not irrevocably waived, the right to accelerate the maturity of any amount owing thereunder; provided, that the total amount of such Financial Indebtedness unpaid or capable of being accelerated exceeds U.S.\$20,000,000 (or its equivalent in another currency); provided however that this paragraph shall not apply to foreign currency Financial Indebtedness owed by Gazprom, Gazexport or a Principal Subsidiary to Russian persons (being Russian citizens or legal entities organised under Russian law or having their chief place of business in the Russian Federation).
- (v) Gazprom, Gazexport or any Principal Subsidiary commences negotiations with its creditors generally with a view to the general readjustment or rescheduling of its indebtedness or makes a general assignment for the benefit of or a composition with its creditors generally; provided that in the case of a Principal Subsidiary the same could have a Material Adverse Effect.
- (vi) Gazprom, Gazexport or any Principal Subsidiary takes any corporate action or any order is made by a competent court for its winding-up, dissolution, external administration or re-organisation whether by way of voluntary arrangement, scheme of arrangement or otherwise or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of all or a material part of its revenues and assets.
- (vii) Gazprom, Gazexport or any Principal Subsidiary (a) fails or is unable to pay its debts generally as they become due or (b) commences a voluntary case in bankruptcy or any other

- action or proceeding for any other relief under any law affecting creditors' rights as is similar to bankruptcy law, or (c) a bankruptcy (insolvency) petition in respect of Gazprom, Gazexport, or any Principal Subsidiary is accepted by any competent court and bankruptcy proceedings are initiated by such competent court or (d) any action is brought in and accepted by any competent court for the liquidation of Gazprom, Gazexport, or any Principal Subsidiary; or (e) a Russian federal law that provides for the liquidation of Gazprom as operator of the Unified Gas Supply System is adopted and comes into effect.
- (viii) Any governmental authorisation necessary for the performance of any obligation of Gazprom or Gazexport under the Transaction Documents fails to be in full force and effect or is revoked.
 - (ix) Any governmental authority or court takes any action that has a material adverse effect on Gazprom's or Gazexport's ability to perform their respective obligations under the Transaction Documents or the validity or enforceability of the Transaction Documents or the rights or remedies of the Issuer under the Transaction Documents.
 - (x) Any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part of, the assets of Gazprom, Gazexport or any event occurs which under the laws of any jurisdiction has a similar or analogous effect and the same could have a Material Adverse Effect unless such execution, distress, enforcement of an Encumbrance or similar or analogous event is being contested in good faith by Gazprom or Gazexport and is not removed, paid out, stayed or discharged within 30 days of such execution, distress being levied, taking of possession or similar or analogous act, as the case may be.
 - (xi) The aggregate amount of unsatisfied final judgments, decrees or orders of courts of competent jurisdiction or other appropriate and competent law-enforcement bodies for the payment of money against Gazprom, Gazexport or a Principal Subsidiary exceeds U.S.\$25,000,000, or the equivalent thereof in any other currency or currencies and there is a period of 45 days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for ten days after the notice to the Issuer and the Trustee pursuant to "Notice of Default" below.
 - (xii) Any seizure, compulsory acquisition, expropriation, nationalisation or renationalisation after the date of the Loan Agreement by or under the authority of a government authority of all or part (the book value of which is fifteen percent (15%) or more of the book value of the whole) of the assets or all or more than fifteen percent (15%) of the voting or non-voting shares of Gazprom, Gazexport or any Principal Subsidiary is made by any person.
 - (xiii) Gazprom, Gazexport or any Principal Subsidiaries of Gazprom cease to carry on the principal business it carries on at the date hereof.
 - (xiv) At any time it is or becomes unlawful for Gazprom or Gazexport to perform or comply with any or all of their respective obligations under the Transaction Documents or any of such obligations are not, or cease to be, legal, valid, binding and enforceable.
 - (xv) Imposition of a moratorium by the Government of the Russian Federation which would affect the ability of Gazprom or Gazexport to service any of their obligations under the Transaction Documents.
 - (xvi) In relation to a Gas Sales Contract:
 - (a) The relevant Gas Buyer fails to make payment thereunder or fails to make payment as required under the Notice and Acknowledgement related to the Assignment of such Gas Sales Contract (or fails to comply with any of its other material obligations under such Gas Sales Contract or Notice and Acknowledgement).
 - (b) Any representation, warranty or certification made by the relevant Gas Buyer in the Notice and Acknowledgement or in any applicable Transaction Document shall prove to be false, incorrect or breached in any material respect.
 - (c) It is unlawful for the relevant Gas Buyer to perform any of its obligations under the relevant Gas Sales Contract and Notice and Acknowledgement or any of such obligations are not, or cease to be, legal, valid, binding and enforceable (subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors'

rights generally, and subject, as to enforceability, to general principles of equity regardless of whether enforcement is sought in a proceeding in equity or at law).

- (d) Any Gas Sales Contract is suspended, terminated, cancelled, rescinded, revoked or replaced in whole or in part or ceases to be in full force and effect.
- (xvii) Any of the Security Documents (in the case of the Springing Assignments, if and when they come into force) ceases to provide the security contemplated thereby, or the security contemplated thereby (in the case of the Springing Assignments, if and when they come into force) is not valid or is materially impaired (for whatever reason) or ceases to be the perfected security interest contemplated thereby or any attachment, collection order or other legal process is levied, enforced or sued out of or against any Gas Sales Contract or any Receivables or the security created under any of the Security Documents (in the case of the Springing Assignments, if and when they come into force) or any Accounts, unless such attachment, collection order or other legal process is contested in good faith and is dismissed within 30 days or, in the reasonable opinion of the Issuer, is frivolous or vexatious.
- (xviii) Repudiation of any Transaction Document by Gazprom, Gazexport or the relevant Gas Buyer.
- (xix) The Debt Service Reserve Account is not funded to the required balance within five Business Days of Gazprom receiving notice from the Issuer that the amount in the Debt Service Reserve Account is less than the Security Balance.
- (xx) A Retention Event is outstanding for 180 consecutive days.
- (xxi) Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

In each case in relation to an event described above relating to a Gas Buyer or a Gas Sales Contract (as set out in (xvi), (xvii), (xviii) and (xxi) above), there shall be no Event of Default if Gazprom furnishes as security additional Gas Sales Contracts in accordance with “Additional, Replacement Gas Sales Contracts, Gas Sales Contract Amendments and Reassignment of Gas Sales Contracts” within 60 days after the occurrence of the relevant event (or such other period as the Issuer may agree with Gazprom).

Notice of Default. Gazprom shall deliver to the Issuer and the Trustee, copied to the Rating Agencies, promptly upon becoming aware thereof, written notice of any event which is a Potential Event of Default or an Event of Default, its status and what action Gazprom is taking or proposes to take with respect thereto.

Default Remedies

If any Event of Default shall occur and be continuing, the Issuer may, by notice in writing to Gazprom copied to the Rating Agencies:

- (i) declare the obligations of the Issuer under the Loan Agreement to be immediately terminated; and/or
- (ii) notwithstanding that such amounts may not be calculable if no Rate of Exchange is available, declare all amounts payable under the Loan Agreement by Gazprom that would otherwise be due after the date of such termination to be immediately due and payable. Any amounts not calculable at the time of declaration will be calculated as soon as a Rate of Exchange is available; and/or
- (iii) irrevocably declare that all amounts due by Gazprom under the Loan Agreement shall be paid in Roubles. The amount of Roubles to be paid by Gazprom shall be the Rouble Equivalent of the amount that would otherwise have been payable by it.

If any Retention Event shall occur and be continuing, the Issuer may, by notice in writing to Gazprom, copied to the Rating Agencies take the actions specified in (iii) above.

Additional, Replacement Gas Sales Contracts, Gas Sales Contract Amendments and Reassignment of Gas Sales Contracts

- (i) Gazprom may: (a) in order to prevent an Event of Default occurring or to remedy any Potential Event of Default or to comply with its obligations under “Covenants—Cover Ratios” above or in order to provide such additional security to the Fiduciary (on behalf of the Issuer) as Gazprom may consider appropriate from time to time or to replace an existing Gas Sales Contract, in its discretion, provide or procure an assignment pursuant to the FAAFAs from Gazexport or Gazprom to the Fiduciary (for the benefit of the Issuer and, following the springing of the Springing Assignments, the Trustee) of any receivables payable under a Gas Sales Contract in addition to, or in replacement of, any Gas Sales Contract already subject to any Assignment and any Springing Assignments; (b) make a Gas Sales Contract Amendment; or (c) seek to reassign an existing Gas Sales Contract.
- (ii) To implement any of the actions set out in paragraph (i) above, a complete and correct copy (save for the deletion of any price formula from such copy) of the relevant gas sales contract, together with any other information that the Rating Agencies require to make the determination contemplated pursuant to (iii) below, shall be furnished by Gazprom to the Issuer and the Rating Agencies or (if the best efforts of Gazprom and Gazexport are unable to procure the delivery of such a copy) made available to the Issuer and the Rating Agencies for their review to their satisfaction, together with a summary of such gas sales contract prepared jointly by Gazprom, Gazexport and (unless the best efforts of Gazprom and Gazexport are unable to procure such preparation) the relevant Gas Buyer in substantially the same form as any existing Gas Sales Contract Summary and certified by Gazprom, Gazexport and (unless the best efforts of Gazprom and Gazexport are unable to procure such certification) the relevant Gas Buyer as being true and complete and not misleading in any material respect.
- (iii) It is a condition precedent for any assignment, Gas Sales Contract Amendment or reassignment pursuant to the Loan Agreement that the Rating Agencies have confirmed in writing prior to the time of (a) the assignment of an additional gas sales contract and related summary, (b) the Gas Sales Contract Amendment or (c) the reassignment of a Gas Sales Contract, in each case pursuant to the FAAFAs, that the ratings assigned by the Rating Agencies to the Notes would not be withdrawn or lowered below the then current rating of the Notes as a result of such assignment, amendment or reassignment (the “Rating Agency Affirmation”), and in the case of a substitution of a new gas buyer, such gas buyer is rated at least BBB+ by each of the Rating Agencies and all appropriate consents have been obtained.
 - (a) In respect of any gas sales contract and related security presented by Gazprom or Gazexport pursuant to “Additional, Replacement Gas Sales Contracts, Gas Sales Contracts Amendments and Reassignment of Gas Sales Contracts”, the Issuer will notify Gazprom and Gazexport promptly on receipt of the Rating Agency Affirmation and upon such notification, or in the absence of such a notification, ten days after the issue by each Rating Agency of the Rating Agency Affirmation, such gas sales contract shall be a “Gas Sales Contract” for the purposes of the Loan Agreement; or
 - (b) In respect of any Gas Sales Contract Amendment presented by Gazprom or Gazexport pursuant to “Additional, Replacement Gas Sales Contracts, Gas Sales Contracts Amendments and Reassignment of Gas Sales Contracts,” the Issuer will notify Gazprom and Gazexport promptly on receipt of the Rating Agency Affirmation and upon such notification, or in the absence of such a notification, ten days after the issue by each Rating Agency of the Rating Agency Affirmation, Gazprom shall be permitted to make such Gas Sales Contract Amendment and the relevant Gas Sales Contract shall continue to be a “Gas Sales Contract” for the purposes of the Loan Agreement; or
 - (c) In respect of the reassignment of any gas sales contract and related security by Gazprom or Gazexport pursuant to “Additional, Replacement Gas Sales Contracts, Gas Sales Contracts Amendments and Reassignment of Gas Sales Contracts”, the Issuer will notify Gazprom and Gazexport promptly on receipt of the Rating Agency Affirmation and upon such notification, or in the absence of such a notification, ten days after the issue by each Rating Agency of the Rating Agency Affirmation, the effectiveness of amendments to the Transaction Documents and security interests contemplated below

and, in the case of a Rating Agency Affirmation requiring the addition of a new gas sales contract or a Gas Sales Contract Amendment, only after such addition or amendment is effective pursuant to sub-paragraphs (i) or (ii) above, such gas sales contract shall cease to be a “Gas Sales Contract” for the purposes of the Loan Agreement;

and in each such case, the parties to the Loan Agreement shall, promptly upon a Rating Agency Affirmation under paragraph (iii) above, enter into any amendment to the Loan Agreement and other Transaction Documents that have been confirmed by the Rating Agencies and that may be required to ensure that the assignment, amendment or reassignment is effective and creates or does not change a first priority security interest in favour of the Fiduciary (for the benefit of the Issuer and following the springing of the Springing Assignments, the Trustee) or that is otherwise necessary for the purposes of the Rating Agency Affirmation, and in particular that the calculation of the Cover Ratios takes into account the Assigned Receivables (see “—The Fiduciary Agreements”) under such additional gas sales contract, as the parties shall agree at such time. In addition, the Issuer will procure, pursuant to the Trust Deed, that the Trustee approves any necessary amendments to such documents. Subject to Clause 15.3 of the Trust Deed, such amendment or modification is deemed to be not materially prejudicial to the interest of the Noteholders when the Trustee has received notice from the Rating Agencies (whether directly or indirectly from the Issuer) that, following such amendment or modification, the ratings assigned by the Rating Agencies to the Notes would not be withdrawn or lowered below the then current rating of the Notes as a result of such assignment, amendment or reassignment and the Trustee shall agree to such amendment or modification. The Trustee, if it provides such agreement on the basis of a Rating Agency Affirmation, shall have no liabilities to any person for so doing.

Indemnity

Gazprom will indemnify the Issuer against any loss, liability, cost, claim, charge, expense, demand or damage which it incurs in respect of the Loan Agreement or the Notes.

Expenses

Gazprom will agree to reimburse the Issuer in the original contractual currency for the expenses incurred by the Issuer in entering into the Loan Agreement and related documents. In addition, Gazprom will agree to reimburse the Issuer in the original contractual currency for all ongoing expenses in relation to the Loan Agreement and related documents.

Assignment

Gazprom will agree not to assign or transfer all or any part of its rights or obligations under the Loan Agreement to any other party.

Governing Law and Jurisdiction

Gazprom and the Issuer will agree that the Loan Agreement will be governed by, and construed in accordance with, the laws of England and subject to the jurisdiction of the courts of England. However, the parties will also agree that, a claim may be settled by arbitration in accordance with the rules of the London Court of International Arbitration in London.

The Loan Guarantee Agreement

Gazexport and the Issuer will enter into a loan guarantee agreement (the “Loan Guarantee Agreement”) whereby Gazexport will unconditionally and irrevocably guarantee that if Gazprom does not pay any sum payable by it under the Loan Agreement by the time and on the date specified for such payment (whether on the normal due date, an acceleration or otherwise), Gazexport will pay that sum to or to the order of the Issuer before close of business that day.

Gazexport will give representations and warranties to the Issuer and the Issuer will give representations and warranties to Gazexport substantially similar to those to be given to the Issuer by Gazprom under the Loan Agreement, and as described in “Description of the Loan Agreement” above.

Gazexport will also make covenants to the Issuer substantially similar to those to be given to the Issuer by Gazprom under the Loan Agreement, and as described in “Description of the Loan Agreement” above.

Gazexport will agree that neither it nor any of its affiliates will do anything which would entitle Gasunie to reduce its minimum offtake obligations under the Gasunie Contract or, except as permitted thereby, to reduce or withhold payment under the Gasunie Contract without first obtaining a Rating Agency Affirmation.

Gazexport will procure that the Rating Agencies, and/or their external counsel, will have access to the Gas Sales Contracts (and any added or replacement Gas Sales Contracts), and any documents related thereto, within four business days of notification of such to Gazexport by a Rating Agency, and that such access will be provided as often as such Rating Agency deems necessary. Gazexport further agrees to make such contracts and documents available to such Rating Agency on each occasion on which it is reviewing such, for at least three hours.

Gazexport will agree to indemnify the Issuer in terms substantially similar to the indemnity to be given to the Issuer by Gazprom in the Loan Agreement, and as described in “Description of the Loan Agreement.”

Gazexport and the Issuer will agree that the Loan Guarantee Agreement will be governed by, and construed in accordance with, the laws of England and subject to the jurisdiction of the courts of England. However, the parties will also agree that, a claim may be settled by arbitration in accordance with the rules of the London Court of International Arbitration, in London.

The Fiduciary Arrangements

The Fiduciary

The Luxembourg law of July 27, 2003 on trust and fiduciary contracts (the “2003 Law”) provides that a fiduciary contract is a contract by which a person, being the *fiduciant* (Gazprom and Gazexport, respectively, under the relevant FAAFAs), agrees with another person, being the *fiduciaire* (ABN AMRO Bank (Luxembourg) S.A.) (the “Fiduciary”) that the *fiduciaire* will become the legal owner of certain assets, in the case of the FAAFAs being the Assigned Receivables (the fiduciary estate), subject to certain obligations determined by the parties to the fiduciary contract. The relationship between the *fiduciant* and the fiduciary is governed by the provisions relating to mandates, except that the fiduciary does not represent the *fiduciant*.

A Luxembourg fiduciary structure is required in relation to this transaction in order for the Luxembourg law of August 1, 2001 on transfers of title as security to apply. The Fiduciary is a Luxembourg credit institution (which is one of the entities which qualifies as a fiduciary under the 2003 Law).

The Fiduciary Agreement

Under their respective FAAFAs, Gazprom and Gazexport will transfer title to the Assigned Receivables, on a fiduciary basis, to the Fiduciary as security for the Loan Secured Liabilities and the Loan Guarantee Secured Liabilities (pursuant to the Assignment) for the benefit of the Issuer and, following the springing of the Springing Assignments, as security for the Notes Guarantee Secured Liabilities for the benefit of the Trustee and, where applicable, for the benefit of Other Creditors of Gazprom and Gazexport. The Fiduciary Assets will become the legal property of the Fiduciary but will be recorded separately from all other assets of the Fiduciary in its books and will not be available to its general creditors in a bankruptcy.

The Assigned Receivables will be assigned by way of transfer of title as security (“*transfert de propriété à titre de garantie*”) under the Luxembourg law of August 1, 2001 on transfers of title as security.

The Accounts

Under the FAAFAs, the Fiduciary will open a U.S. dollar-denominated collection account (the “Collection Account”) and a U.S. dollar-denominated debt service reserve account (the “Debt Service Reserve Account”). Each of the Collection Account and the Debt Service Reserve Account will be in the name of the Fiduciary and will be held with the Accounts Bank.

Under the Irrevocable Payment Instruction, Gazprom and Gazexport will instruct the Gas Buyers to make payments under the Gas Sales Contracts exclusively to the Collection Account.

The FAAFAs include similar provisions as to maintenance of the Debt Service Reserve Account as set out above in “—The Loan Agreement—Covenants—Security Balance.” If on any day the Security Balance is greater than the minimum required the surplus may be withdrawn at Gazprom’s option.

The Issuer and the Trustee will instruct the Fiduciary that, following receipt by the Fiduciary of a notice from the Trustee stating that the funds standing to the credit of the Debt Service Account maintained by the Issuer with the Principal Paying and Transfer Agent will be insufficient to make, in full, all payments falling due under the Notes on the next Payment Date, and stating the amount of such deficiency, (a “DSA Deficiency Notice”) the Fiduciary shall instruct the Account Bank to transfer funds standing to the credit of the Debt Service Reserve Account in an amount equal to such deficiency to the Debt Service Account on such Payment Date. Unless the Fiduciary has received any such notice from the Trustee prior to 4 p.m. (Luxembourg time) it shall not be obliged to effect such a transfer on a same day basis.

The Fiduciary shall transfer all sums standing to the credit of the Collection Account to the Gazexport transit account, provided that the Debt Service Reserve Account is (a) credited with an amount equal to or greater than the then applicable Security Balance and (b) the Fiduciary has not received from the Trustee notice of a Retention Event, a Loan Event of Default, a Potential Loan Event of Default, a Notes Event of Default or a Special Event (provided in each case that the Springing Assignments has become enforceable) or a Loan Payment Suspension Event (save for Retention Event, each a “Holding Event”).

However, following the receipt by the Fiduciary of written notice from the Trustee of the occurrence of a Retention Event or a Holding Event (each as defined in “The Offering—The Loan Agreement”), the Fiduciary shall retain amounts standing to the credit of the Collection Account in the Collection Account:

- (a) in the case of a Retention Event, until it is cured (upon which cure such sums shall be released) or 180 days have passed since the Retention Event occurred (which will constitute a Loan Event of Default and a Holding Event); and
- (b) in the case of a Holding Event, until it is cured or if the monies in the Collection Account are in excess of the Holding Event Cap and to the extent that monies are in excess of the Holding Event Cap, upon which the Fiduciary will transfer such excess to the Gazexport Transit Account

provided that monies from the Collection Account, may, at the option of Gazprom, be transferred to the Debt Service Reserve Account to remedy any shortfall in respect of the Security Balance.

Upon the occurrence of a Loan Event of Default and following the making of the Rouble Repayment Election, the Trustee shall be entitled to serve a notice of enforcement of the Assignment on Gazprom and/or Gazexport and the Fiduciary, copied to the Rating Agencies (a “Loan Enforcement Notice”). Upon receipt of a Loan Enforcement Notice, the Fiduciary shall, provided that it is indemnified to its satisfaction and is provided with any documents that are necessary in connection with the taking of enforcement action, take steps to enforce the Assignments and shall distribute the proceeds of enforcement of the Fiduciary Assets (i) to the Issuer, in or towards satisfaction of the Loan Secured Liabilities and Loan Guarantee Secured Liabilities and (ii) any surplus to Gazexport or any other person entitled thereto or any other person designated by Gazprom and Gazexport.

Upon the occurrence of a Notes Event of Default or an event that, but for the U.S.\$50 million threshold in the definition of “Special Event” would constitute a Special Event, the Trustee shall be entitled to issue a notice to Gazprom, Gazexport, the Issuer and the Fiduciary, copied to the Rating Agencies, stating that it has elected to invoke the Springing Assignments and/or, in the case of a Notes Event of Default, to make a demand under the Notes Guarantees or any Further Notes Guarantees. In addition, the Trustee shall, immediately following issue of the Notes, issue a revocable conditional notice springing the Springing Assignments. Such notice shall be conditional upon (i) the occurrence of a Special Event, (ii) the Trustee not having revoked such notice within 30 days of service of the bailiff’s deed which resulted in such Special Event and (iii) an Inconvertibility Event subsisting at anytime during the 30 day period commencing on the date of service of the bailiff’s deed which resulted in such Special Event. Following a failure to pay by Gazprom or Gazexport under the Notes Guarantees or any Further Notes Guarantees and the delivery of such a notice electing to invoke the Springing Assignments, the Trustee shall be entitled to serve a notice of enforcement of the Springing Assignments on Gazprom, Gazexport and the Fiduciary, copied to the Rating Agencies, declaring the Notes Guarantee Secured Liabilities to be immediately due and payable (a “Note Enforcement Notice”). Upon receipt of a Note Enforcement Notice the Fiduciary shall, provided that it is indemnified to its satisfaction and is provided with any documents that are necessary in connection with the taking of enforcement action, take steps to enforce the Springing Assignments and shall, so long as there are no Other Creditors, distribute the proceeds of enforcement of the Fiduciary Assets (i) first, to the Issuer, in or towards satisfaction of the Loan Secured Liabilities and Loan Guarantee Secured Liabilities, (ii) second, to the Trustee in or towards satisfaction of the Notes Guarantee Secured Liabilities, and (iii) third, the surplus, if any, to Gazexport or any other person entitled thereto or any other person designated by Gazprom and Gazexport subject to the Trustee’s ability to instruct the Fiduciary as to the relative ranking of these claims if there are no Other Creditors ranking ahead of claims in respect of the Notes Guarantee Secured Liabilities.

Forthwith upon service on the Fiduciary by bailiff’s deed of an attachment order relating to an unpaid debt, which attachment order, upon validation, would constitute the creditor an Other Creditor, the Fiduciary shall notify Gazprom, the Issuer, the Trustee and the Rating Agencies thereof.

In the event that there are Other Creditors, the order of application of funds by the Fiduciary will be (i) first, to the Issuer in or towards satisfaction of the Loan Secured Liabilities and Loan Guarantee Secured Liabilities, (ii) second, in or towards satisfaction of the claims of such Other Creditors, (iii) third, to the Trustee in or towards satisfaction of the Notes Guarantee Secured Liabilities and (iv) fourth, the surplus, if any, to Gazexport or any other person designated by Gazprom and Gazexport.

If following notice in respect of the Assignments as set out above and the exercise of the Rouble Repayment Election, the Loan has been accelerated and a RR-U.S. dollar Rate of Exchange obtained and subsequently, in seeking to apply the Assigned Receivables in discharge of Rouble sums due in respect of

the Loan, the Fiduciary and the Trustee, having made reasonable efforts so to do, are unable to arrange the conversion of U.S. dollars into roubles, then, provided that Gazprom has failed to discharge such Rouble payment obligations, the Trustee may direct the Accounts Bank to hold the U.S. dollars standing to the credit of the Collection Account on behalf of the Issuer (as lender under the Loan) in satisfaction of the Rouble sums due under the Loan applying the last applicable USD-RUR Rate of Exchange.

F/X Facility

Following a Rouble Repayment Election, Gazprom may, pursuant to the F/X provisions of its Gazprom FAAFA, elect either (i) to enter into a trade with the F/X Bank to convert U.S. dollars standing to the credit of the Collection Account into RR or (ii) to deliver RR from another source, in each case in order to satisfy its RR obligations under the Loan Agreement. The Issuer has given standing instructions for an equivalent transaction between the Issuer and the F/X Bank converting the RR back into U.S. dollars to be executed (at the same rate of exchange used for the initial transaction) to enable the Issuer to satisfy its obligations under the Notes (together, the “Double-Leg F/X Trade”).

Following service of a Loan Enforcement Notice and the making of a Rouble Repayment Election, the Trustee will be able to utilise the F/X arrangements as described in the FAAFAs in place of Gazprom.

If the F/X Bank is unable to quote a rate of exchange in respect of any trade requested under the Gazprom FAAFA, or if that trade would be Illegal or would result in a breach by the F/X Bank or its parent of any applicable regulation or guideline issued by the regulator of the F/X Bank or its parent (an “Adverse Regulatory Consequence”) the F/X Bank shall not be obliged to enter into the F/X trade and this shall constitute a Loan Payment Suspension Event.

In connection with the exercise of the Rouble Repayment Election the F/X Bank may in addition quote a Rate of Exchange which will be used purely for calculation purposes in connection with the Loan Agreement.

Following a Loan Payment Suspension Event which is continuing, if the F/X Bank does not quote a rate, Gazprom may enter into a Double-Leg F/X Trade with an alternative F/X bank (which has ratings assigned to its unsecured, unsubordinated and unguaranteed short term debt obligations of at least F-1 by Fitch and at least A-1 by S&P) (an “Alternative F/X Bank”) which has committed to enter into the relevant exchange transactions comprising the Double-Leg F/X Trade with both Gazprom and the Issuer.

Alternatively, if Gazprom elects to discharge its RR obligations under the Loan Agreement from its own resources, then the RR received by the Issuer will be exchanged into U.S. dollars pursuant to a single F/X trade with the F/X Bank.

The F/X Bank will (save in the circumstances described above) provide the rate of exchange between RR and the original currency of the Loan used to determine the amount of RR payable by Gazprom under the Loan Agreement although, except as described below, it may impose a cap on quantum of any trade which it is willing to execute. However, Gazprom will have the opportunity to seek an alternative to rate of exchange from an Alternative F/X Bank provided that such alternative F/X bank commits to executing the necessary F/X trade with the Issuer, in accordance with the procedures set out in the F/X provisions of the Gazprom FAAFA.

Other provisions

The Fiduciary shall continue to act as fiduciary for the benefit of the Issuer and the Trustee until instructed otherwise by the Issuer and the Trustee or until it retires (as set out below).

ABN AMRO Bank (Luxembourg) S.A. may retire from its functions as Fiduciary, F/X Bank and/or Accounts Bank under the FAAFAs at any time upon giving not less than three months’ notice in writing to the Issuer. Its retirement from such roles shall not become effective until a new Fiduciary, F/X Bank and/or Accounts Bank has been appointed.

The FAAFAs will contain covenants from Gazexport and Gazprom in relation to security, maintenance and protection of security, Gas Sales Contract Amendments and Replacement Gas Sales Contracts that mirror the provisions set out in the Loan Agreement. See “Description of Transaction Documents—Description of the Loan Agreement.” In addition, Gazprom and Gazexport will covenant not to undertake any action, or permit any action to be undertaken, which could prejudice the validity and enforceability of the Assignments or the Springing Assignments.

The FAAFAs (except for the F/X provisions in clause 5) shall be governed by Luxembourg law with arbitration in the City of Luxembourg. The F/X provisions in clause 5 shall be governed by English law with arbitration in the City of Luxembourg.

Definitions

In this section, the following terms shall have the meanings indicated:

“Accounts” means the Collection Account and the Debt Service Reserve Account.

“Assigned Receivables” means Gazprom’s and Gazexport’s respective rights relating to the present and future receivables under the Gas Sales Contracts including proceeds thereof and all rights relating thereto.

“Assignments” means the Eni Contract Assignment and the Gasunie Contract Assignment and any additional assignment document.

“Business Day” means, prior to the Rouble Repayment Election, a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in Luxembourg and the relevant place of payment, (b) where payment is to be made by transfer to an account maintained with a bank in the Original Currency, foreign exchange transactions may be carried on in the Original Currency, in the principal financial centre of the country of such Original Currency and (c) if on or prior to that day the Rouble Repayment Election has been made, a day that commercial banks generally are open for business in Moscow.

“Consolidated Net Tangible Assets” means the total of all assets less (a) total liabilities, (b) goodwill, trade names, trade marks, service marks, patents, licences, organizational expenses, research and development expenses, unamortized debt discount and expense, unamortized deferred charges and all other like intangible assets, (c) all write-ups of fixed assets, net of accumulated depreciation thereon, after December 31, 2003, other than revaluations supported by an independent appraisal completed by an appropriately qualified firm and disregarding, for the avoidance of doubt, any restatement for changes in the general purchasing power of the Rouble in accordance with IFRS 29 “Financial Reporting in Hyperinflationary Economics” and (d) preferred stock, if any, all as set forth on the most recent consolidated balance sheet of Gazprom and its consolidated Subsidiaries prepared in accordance with IFRS, as consistently applied.

“Contract Volume Test” means a test to ensure that an agreed quantity of gas is being delivered to Gasunie and Eni by Gazprom and/or Gazexport.

“Contractual Currency” means the Original Currency, save that after the Issuer has made the Rouble Repayment Election, references to the Contractual Currency shall mean Roubles. The amount of Roubles to be paid by Gazprom shall be the Rouble Equivalent of the amount that would have been payable by it had the Rouble Repayment Election not been made.

“Cover Ratios” means the Contract Volume Test, the Debt Service Cover Ratio and the Six-Monthly Ratio.

“Cover Ratio Certificate” means for any relevant period the certificate issued by Gazprom and Gazexport evidencing the level of each Cover Ratio as of the date of such certificate.

“Currency Equivalent” means the Original Currency equivalent of a RR amount calculated using the relevant Rate of Exchange.

“Encumbrance” means any mortgage, charge, pledge, lien (other than a lien arising solely by operation of law which is discharged within 45 days of arising) or other security interest securing any obligation of any Person or any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect.

“Eni Contract” means the contract for the sale and purchase of natural gas between Gazexport, as seller and Eni, as buyer dated November 8, 1996 as amended by an agreement dated January 20, 2003, as the same may be amended, varied or supplemented from time to time.

“Eni Contract Assignment” means the Eni Contract Assignment documented pursuant to the FAAFAs relating to the security assignment of certain rights under the Eni Contract, and the related Notice and Acknowledgement.

“Environmental Law” means any applicable law in any jurisdiction in which any member of the Group conducts business which relates to the pollution or protection of the environment or harm to or the protection of human health or the health of animals or plants.

“Fiduciary Assets” means the Assigned Receivables assigned under the Assignments by Gazprom and Gazexport to the Fiduciary for the benefit of the Issuer, together with any Further Receivables and

the Assigned Receivables conditionally held by the Fiduciary under the Springing Assignments for the benefit of the Trustee, together with any Further Receivables that may be conditional.

“Financial Indebtedness” means any obligation for the payment of money in any currency (other than an obligation for the payment of money in the lawful currency for the time being of the Russian Federation payable to any person domiciled, resident or having its head office or principal place of business in the Russian Federation), whether sole, joint or several, and whether actual or contingent, in respect of:

- (a) moneys borrowed or raised (including the capitalized value of obligations under financial leases and hire purchase agreements and deposits, but excluding moneys raised by way of the issue of share capital (whether or not for a cash consideration) and any premium on such share capital) and interest and other charges thereon or in respect thereof;
- (b) any liability under any debenture, bond, note, loan stock or other security or under any acceptance or documentary credit, bill discounting or note purchase facility or any similar instrument;
- (c) any liability in respect of the deferred acquisition cost of property, assets or services to the extent payable after the time of acquisition or possession thereof by the party liable, but not including any such liability in respect of normal trade credit for a period not exceeding six months for goods or services supplied;
- (d) any liability under any interest rate or currency hedging agreement (calculated using the marked to market value of such agreement, save that any positive value shall be disregarded);
- (e) any liability under or in respect of any bonding facility, guarantee facility or similar facility; and
- (f) (without double counting) any guarantee or other assurance against financial loss in respect of such moneys borrowed or raised, interest, charges or other liability (whether the person liable in respect of such moneys borrowed or raised, interest, charges or other liability is or is not a member of the Group),

but not where the same relates to or is in connection with any Project Financing.

“Further Notes Guarantees” means any deed of guarantee entered into by Gazprom and Gazexport in respect of any further Notes.

“Further Receivables” means the present and future receivables generated by any gas sales contracts which are deemed Gas Sales Contracts pursuant to Clause 3.3.4 of the FAAFAs and the proceeds thereof.

“Gas Buyer” means Eni, Gasunie and all other purchasers of natural gas under the Gas Sales Contracts.

“Gas Sales Contracts” means (a) the Eni Contract and the Gasunie Contract and (b) any other gas sales contract which, pursuant to “—The Loan Agreement—Additional, Replacement Gas Sales Contracts, Gas Sales Contract Amendments and Reassignment of Gas Sales Contracts”, is deemed a Gas Sales Contract for the purposes of the Loan Agreement (in each case, unless and until replaced pursuant to “—The Loan Agreement—Additional, Replacement Gas Sales Contracts, Gas Sales Contract Amendments and Reassignment”).

“Gasunie Contract” means the contract for the sale and purchase of natural gas between Gazexport, as seller and Gasunie, as buyer dated September 28, 2000 as amended by a side letter dated January 31, 2002 and a side letter dated January 29, 2004, as the same may be amended, varied or supplemented from time to time.

“Gasunie Contract Assignment” means the Gasunie Contract Assignment documented pursuant to the FAAFAs relating to the security assignment of certain rights under the Gasunie Contract and the related Notice and Acknowledgement.

“Gazexport Notes Guarantee Secured Liabilities” means all present and future moneys, debts and liabilities due, owing or incurred to the Trustee by Gazexport under the Gazexport Notes Guarantee and any Further Gazexport Notes Guarantee, together with all interest accruing and all costs, charges and expenses incurred in connection therewith.

“Gazprom Notes Guarantee Secured Liabilities” means all present and future moneys, debts and liabilities due, owing or incurred to the Trustee by Gazprom under the Gazprom Notes Guarantee and any Further Gazprom Notes Guarantee, together with all interest accruing and all costs, charges and expenses incurred in connection therewith.

“Holding Event Cap” means, at any time, an amount equal to the principal amount then outstanding under the Loan Agreement and any loan agreement in respect of Further Loans together with interest accruing thereon in respect of the then current period for the accrual of interest and costs and expenses due in connection therewith.

“Group” means Gazprom and its Subsidiaries taken as a whole.

“Illegality” means, in relation to any act or circumstance, that it would be unlawful under any applicable law, or contrary to any applicable regulation or regulatory requirement or directive of any agency of any state.

“Inconvertibility Event” means (i) the refusal by the F/X Bank to quote a Rate of Exchange, or (ii) the imposition of any restrictions on the exchange of RR for U.S. dollars which, were a Rate of Exchange requested, would result in the F/X Bank refusing to quote by reason of Illegality or Adverse Regulatory Consequence, or being prevented from quoting, a Rate of Exchange, provided that any such refusal to quote, or prevention from quoting, a Rate of Exchange for a Single Leg F/X Trade shall not be an Inconvertibility Event if the F/X Bank quotes, or would not refuse to quote, a Rate of Exchange for a Double Leg Trade.

“Loan Guarantee” means the guarantee agreement dated on or about the date hereof between the Issuer and Gazexport.

“Loan Guarantee Secured Liabilities” means all moneys, debts and liabilities in RR which may become due, owing or incurred to the Issuer following the making of the Rouble Repayment Election, under the Loan Guarantee Agreement and any Further Loan Guarantee Agreement together with all interest accruing in RR and all cost, charges and expenses incurred in connection therewith and in connection with the Loan Agreement.

“Loan Secured Liabilities” means all moneys, debts and liabilities in RR which may become due, owing or incurred to the Issuer following the making of the Rouble Repayment Election, under the Loan Agreement and any Further Loan Agreement together with all interest accruing in RR and all costs, charges and expenses incurred in connection therewith and in connection with the Loan Agreement.

“Material Adverse Effect” means a material adverse effect on (a) the financial condition or operations of Gazprom, Gazexport or any of Gazprom’s Principal Subsidiaries or (b) Gazprom’s or Gazexport’s ability to perform their respective obligations under the Transaction Documents to which it is a party or (c) the validity, legality or enforceability of the Transaction Documents or the rights or remedies of the Issuer under the Transaction Documents to which it is a party.

“Notes Guarantee Secured Liabilities” means the Gazprom Notes Guarantee Secured Liabilities and the Gazexport Notes Guarantee Secured Liabilities.

“Notice and Acknowledgement” means the notice and the acknowledgement of an Assignment and Springing Assignment (substantially in the form attached thereto) entered or to be entered into between the parties to such Assignment and Springing Assignment and the relevant Gas Buyer under which such Gas Buyer, *inter alia*, acknowledges such Assignment and Springing Assignment.

“Original Currency” means U.S. dollars.

“Other Creditor” means any creditor of Gazprom or Gazexport (other than the Issuer, the Trustee or the Fiduciary) which has obtained at any time prior to the satisfaction of the Condition set out in Clause 3.2.2 of the FAAFAs in respect of an unpaid debt an attachment relating to Gazprom’s or Gazexport’s residual rights against the Fiduciary under the FAAFAs, in particular the right under certain conditions to the return of the Fiduciary Assets, in the circumstances set out in the FAAFAs, which attachment has been validated by the Luxembourg courts as being valid, binding and enforceable provided that such attachment creditor shall only become an Other Creditor 30 days following service of the relevant attachment by bailiff’s deed.

“Payment Date” means each February 1 and August 1 in each year, starting from February 1, 2005 onwards until maturity or redemption.

“Permitted Encumbrance” means:

- (a) any Encumbrance existing on the date of the Loan Agreement;
- (b) any Encumbrance existing on any property, income or assets of any corporation at the time such corporation becomes a Subsidiary of Gazprom and not created in contemplation of such event, provided that no such Encumbrance shall extend to any other property, income or assets of such corporation or the Group;

- (c) any Encumbrance on any property, income or assets of any corporation existing at the time such corporation is merged or consolidated with or into Gazprom or any Subsidiary of Gazprom and not created in contemplation of such event, provided that no such Encumbrance shall extend to any other property, income or assets of the Group;
- (d) any Encumbrance on any property or assets securing Financial Indebtedness of Gazprom or any Subsidiary of Gazprom incurred or assumed for the purpose of financing all or part of the cost of acquiring, purchasing, constructing or developing such property or assets, provided that no such Encumbrance shall extend to any other property or assets of the Group, the principal amount of the Financial Indebtedness secured by such Encumbrance shall not exceed the cost of acquiring, purchasing, constructing or developing such property or assets, and such Encumbrance attaches to such property or assets concurrently with or within 90 days after the acquisition or purchase, or the commencement of the construction or development, thereof;
- (e) any Encumbrance on any property or assets securing Financial Indebtedness of Gazprom or any Subsidiary of Gazprom incurred or assumed for the purpose of financing all or part of the cost of repairing or refurbishing such property or assets, provided that no such Encumbrance shall extend to any other property or assets of the Group, the principal amount of the Financial Indebtedness secured by such Encumbrance shall not exceed the cost of such repairs or refurbishments, and such Encumbrance attaches to such property or assets concurrently with or within 90 days after the commencement of such repairs or refurbishments;
- (f) any Encumbrance existing on any property, income or assets prior to the acquisition thereof by Gazprom or any Subsidiary of Gazprom and not created in contemplation of such acquisition, provided that no such Encumbrance shall extend to any other property, income or assets of the Group;
- (g) any Encumbrance on the property, income or assets of any Subsidiary of Gazprom securing intercompany Financial Indebtedness of such Subsidiary of Gazprom owing to Gazprom or another Subsidiary of Gazprom;
- (h) any Encumbrance securing financial indebtedness incurred in connection with a Project Financing if the Encumbrance is solely on the property, income, assets or revenues of the project for which the financing was incurred;
- (i) any Encumbrance securing Financial Indebtedness not exceeding 50% of Gazprom's Consolidated Net Tangible Assets at any time of determination;
- (j) any Encumbrance arising out of the refinancing, extension, renewal or refunding of any Financial Indebtedness of Gazprom or any Subsidiary of Gazprom secured by any Permitted Encumbrance, provided that such Financial Indebtedness (or, in the case of a Project Financing, financial indebtedness) is not increased and, if the property, income or assets securing any such Financial Indebtedness (or, in the case of a Project Financing, financial indebtedness) are changed in connection with any such refinancing, extension, renewal or refunding, the value of the property, income or assets securing such Financial Indebtedness (or, in the case of a Project Financing, financial indebtedness) is not increased;
- (k) any Encumbrance over any goods or products, or documents, insurance policies or sale contracts in relation to any goods or products, arising in the ordinary course of trading in connection with the provision of a letter of credit or any similar transaction where such Encumbrance secures only so much of the acquisition cost or selling price (and amounts incidental thereto) of such goods or products which is required to be paid within 120 days after the date upon which liability in respect of the same was first incurred; and
- (l) a right of set-off, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, company, firm, trust, organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality.

"Potential Event of Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Principal Subsidiary" means at any relevant time a Subsidiary of Gazprom:

- (a) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) represent not less than 5% of the total consolidated assets or the gross consolidated revenues of Gazprom and its Subsidiaries, all as calculated by reference to the then latest audited accounts (or consolidated accounts as the case may be) (in each case, produced on the basis of IFRS, consistently applied) of such Subsidiary and the then latest audited consolidated accounts of Gazprom (produced on the basis of IFRS, consistently applied) and its consolidated Subsidiaries; or
- (b) to which is transferred all or substantially all the assets and undertaking of a Subsidiary which immediately prior to such transfer is a Principal Subsidiary.

“Project Financing” means any financing of all or part of the costs of the acquisition, construction, development or operation of any asset or project if the person or persons providing such financing expressly agrees to limit as recourse solely to the asset or project financed and the revenues derived from such asset or project as the sole source of repayment for the moneys advanced.

“Receivables” means all present and future right, title and interest of each of Gazprom and Gazexport, or either of them, in and to all present and future book and other debts (and their proceeds) and all other receivables and moneys that are, or at any time become, due and owing for any reason whatsoever to Gazprom or Gazexport, as the case may be, pursuant to any Gas Sales Contract and all other amounts due and owing by the relevant Gas Buyer pursuant to or in relation to the relevant Gas Sales Contract, including any amounts payable by way of damages or penalties for any breach thereof.

“Relevant Gasunie Contract” means any agreement, contract or other arrangement between Gazprom and/or Gazexport and Gasunie as a result of which Gasunie could become entitled to exercise the right of set-off reserved in the Notice and Acknowledgement in respect of the Gasunie Contract.

“Security Balance” means (a) during the period prior to February 1, 2007 (the “Amortization Grace Period”), the amount of debt service (including costs and expenses) that will become due on the first Payment Date on the Notes on which principal is payable; and (b) after the Amortization Grace Period, the largest amount of debt service (including costs and expenses) that will become due on any Payment Date on the Notes.

“Security Documents” means the FAAFAs, the Notes Guarantees and the Loan Guarantee and any other instrument creating or maintaining an Encumbrance which is provided from time to time as security for the obligations of Gazprom under the Loan Agreement and the Notes Guarantees.

A “Special Event” means the service on the Fiduciary by bailiff’s deed of an attachment relating to an unpaid debt which attachment, upon validation, would constitute the creditor an Other Creditor, provided that such claim has not been discharged within 10 days of such service, and provided that the unpaid debt in respect of which attachment is sought is or would be, when aggregated with the unpaid debts of all other persons who then are, or having served such a deed will in due course become, Other Creditors, U.S.\$50,000,000 or more.

“Springing Assignments” mean the contingent future security to be granted by Gazprom and Gazexport in favor of the Fiduciary (for the benefit of the Trustee) in respect of the Notes Guarantees, as documented pursuant to the FAAFAs and the relevant Notices and Acknowledgements.

“Subsidiary” means, with respect to any Person, (a) any corporation, association or other business entity of which at least 50% of the total voting power entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of such Person (or any combination thereof) or (b) any partnership (i) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such person or (ii) the only general partners of which are such Person or of one or more Subsidiaries of such Person (or any combination thereof).

“Taxes” means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Luxembourg or any taxing authority thereof or therein; and the term “Taxation” shall be construed accordingly.

“Transaction Documents” means the Gas Sales Contracts (from time to time), the Loan Agreement, and the Security Documents.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Conditions (the “Conditions”) of the Notes, which contain summaries of certain provisions of the Trust Deed (as defined below), and which (subject to completion and amendment in accordance with the provisions of the relevant Pricing Supplement) will be endorsed on Notes in definitive form, if issued, and (subject to the provisions thereof) apply to the Global Notes representing each series of Notes. Either (i) the full text of these Conditions together with the relevant Pricing Supplement or (ii) these conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Notes. All capitalized terms that are not defined in the General Conditions will have the meanings given to them in this Offering Circular, the relevant Pricing Supplement or the Trust Deed (as applicable). References in the Conditions to “Notes” are to the Notes of one series issued on the same Closing Date and with the same common terms set out in the relevant Pricing Supplement only, not to all Notes that may be issued under the Program.

The Issuer has authorised the creation and issue from time to time under a Program for the issuance of structured export notes (the “**Program**”) of structured export notes, to be issued in series.

Under the Program, the structured export notes described herein and in the Pricing Supplement and issued on July 29, 2004 (the “**Closing Date**”) (the “**Notes**”, which expression includes any further Notes issued pursuant to Condition 16 and forming a single series herewith), without coupons, of Gazprom International S.A. (the “**Issuer**”) are constituted by a trust deed (the “**Trust Deed**”, which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated July 29, 2004 and made between the Issuer and ABN AMRO Trustees Limited (the “**Trustee**”, which expression shall include any successors) as trustee for the holders of the Notes (the “**Noteholders**”). Additional structured export notes (“**Additional Structured Export Notes**”) may be issued in series by the Issuer under the Program from time to time and will be constituted by a trust deed supplemental to the Trust Deed made between the Issuer and the Trustee. Such Additional Structured Export Notes can be issued in an aggregate principal amount outstanding at any one time not exceeding the Program Limit in accordance with the FX, Assignments, Accounts and Fiduciary Agreements described below.

Each of Open Joint Stock Company Gazprom (the “**Borrower**”) and Gazexport Ltd. (“**Gazexport**” and together with the Borrower, the “**Notes Guarantors**”) have unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes and their obligations in that respect (together, the “**Notes Guarantees**”) are contained in deeds of guarantee each dated July 29, 2004 in favour of the Trustee. The Notes Guarantors will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer in respect of any Additional Structured Export Notes pursuant to additional deeds of guarantee.

Each of the Notes Guarantees will have the benefit of a conditional future assignment (together the “**Springing Assignments**”) over certain export receivables (the “**Export Contract Receivables**”) assigned by the Borrower and Gazexport to ABN AMRO Bank (Luxembourg) S.A. as fiduciary (the “**Fiduciary**”) for the benefit of the Trustee, each documented pursuant to an F/X, Assignments, Accounts and Fiduciary Agreement dated July 29, 2004 (together, the “**FAAFAs**”) between the Borrower and Gazexport, respectively, and the Fiduciary, the Issuer and the Trustee. Separate guarantees given in relation to Additional Structured Export Notes will, pursuant to the FAAFAs, also be supported by the Springing Assignments.

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a loan (the “**Loan**”) to the Borrower, guaranteed by Gazexport. The Issuer and the Borrower have recorded the terms of the Loan in a loan agreement (the “**Loan Agreement**”) dated July 28, 2004 between the Issuer and the Borrower. The guarantee of the Loan by Gazexport is recorded in a guarantee agreement (the “**Loan Guarantee**”) dated July 28, 2004 between the Issuer and Gazexport. In the event that the Trustee (as beneficiary of the Assignment of Rights (as defined below)) makes the Rouble Repayment Election (as defined in the Loan Agreement), the Loan will be repayable in Russian roubles. Such obligation to repay the Loan in Russian roubles is secured by way of an assignment (the “**Assignment**”) by each of the Borrower and Gazexport of the Export Contract Receivables in favour of the Fiduciary for the benefit of the Issuer, documented pursuant to the FAAFAs. Additional Structured Export Notes will, if issued, be for the sole purpose of financing loans to the Borrower, guaranteed by Gazexport. The Issuer and the Borrower will record the terms of such loans in a loan agreement between the Issuer and the Borrower, in a form substantially similar to the Loan Agreement. The guarantee of such loans by Gazexport will be recorded in a guarantee agreement between the Issuer and Gazexport, in a form substantially similar to

the Loan Guarantee. In the event that the Trustee (as beneficiary of the Assignment of Rights) makes the Rouble Repayment Election, such loan will be repayable in Russian roubles. Such obligation to repay such loan in Russian roubles will be secured by the Assignment pursuant to the FAAFAs.

Pursuant to the Trust Deed the Issuer has assigned absolutely certain rights (other than any rights and benefits constituting Excluded Rights (as defined in the Trust Deed)) under the Loan Agreement, including the right to make the Rouble Repayment Election, the Loan Guarantee and the FAAFAs to the Trustee (the “**Assignment of Rights**” and such rights as assigned, the “**Assigned Rights**”). In certain circumstances, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Assignment of Rights).

Payments in respect of the Notes will be made pursuant to a paying and transfer agency agreement (the “**Agency Agreement**”) dated July 28, 2004 and made between the Issuer, ABN AMRO Bank, N.V. (London Branch), as the principal paying and transfer agent (the “**Principal Paying and Transfer Agent**”), ABN AMRO Bank (Luxembourg) S.A. and LaSalle Bank N.A. as paying and transfer agents (each a “**Paying and Transfer Agent**”) (which expressions shall include any successors) and LaSalle Bank N.A. as registrar (the “**Registrar**”, which expressions shall include any successors), the Borrower and the Trustee.

Copies of the Trust Deed, the Loan Agreement, the Agency Agreement, the Notes Guarantees, the Loan Guarantee and the FAAFAs are available for inspection at the principal office of the Trustee being, at the date hereof, at 82 Bishopsgate, London EC2N 4BN, at the specified office of the Principal Paying and Transfer Agent and at the specified office of the Paying and Transfer Agent in Luxembourg.

The statements contained in these Conditions include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

General Conditions

The following Conditions are of general application to all Notes issued under the Programme:

1 Status and Guarantee

1.1 Status of the Notes

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan.

The Notes constitute unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable legislation at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

1.2 Status of Notes Guarantees

The Notes Guarantors have unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes in the Notes Guarantees. The payment obligations of the Notes Guarantors under the Notes Guarantees shall, save for such exceptions as may be provided by applicable legislation at all times rank at least equally with all their respective other present and future unsecured and unsubordinated obligations. The Notes Guarantees have the benefit of the Springing Assignments in the manner described in the FAAFAs.

1.3 Notifications to Noteholders

Noteholders have notice of, and have accepted, these Conditions and the contents of the Trust Deed, the Loan Agreement, the Loan Guarantee and the FAAFAs (together with the Loan Agreement and Loan Guarantee, the “**Assigned Contracts**”) and have hereby accepted that:

- 1.3.1** neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph 1.3.5 below, liability or obligation in respect of the performance by the Borrower, Gazexport or the Fiduciary of their respective obligations under the Assigned Contracts or the Notes Guarantors of their obligations under the Notes Guarantees and observance by the Notes Guarantors of their respective obligations thereunder or the recoverability of any amounts due or to become due from the Notes Guarantors thereunder;
- 1.3.2** neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of the Notes Guarantors;
- 1.3.3** neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Notes Guarantors under or in respect of the Assigned Contracts or the Notes Guarantees;
- 1.3.4** the Issuer and the Trustee shall be entitled to rely on certificates signed by a duly authorised officer of the Borrower and Gazexport confirming that they are complying with their respective obligations under the Assigned Contracts (other than the obligation to make payments of principal and interest under them) and shall not otherwise be responsible for investigating any aspect of the Borrower's, Gazexport's or the Fiduciary's performance in relation thereto, and shall not be bound to enquire into or be liable for any defect, omission or failure in protecting or perfecting or further assuring the Assigned Rights; and the Trustee has no responsibility for the value of such Assigned Rights.
- 1.3.5** No recourse under any obligation, covenant or agreement of the Issuer contained in these presents or any other agreement entered into by the Issuer in relation to the Notes or the Loan shall be made against any shareholder, officer or director of the Issuer as such, by the enforcement of any assignment or by any proceeding, by virtue of any statute or otherwise; it being expressly agreed and understood that the provisions of these presents

are corporate obligations of the Issuer and no liability shall attach to, or be incurred by, the shareholders, officers, agents, or directors of the Issuer as such, or any of them, under or by reason of any of the obligations, covenants and agreements of the Issuer contained in these presents or any other agreement entered into by the Issuer in relation to the Notes or the Loan, or implied therefrom, and that any and all personal liability for breach by the Issuer of any of such obligations, covenants or agreements, either at law or by statute or certification, of every such shareholder, officer, agent or director is hereby expressly waived by the Issuer as a condition of any consideration for the execution of this Deed.

2 Form and Denomination

The Notes are issued in fully registered form, and in the Specified Denomination stated in the Pricing Supplement, without interest coupons; provided that the Rule 144A Notes shall be held in amounts of not less than U.S.\$100,000.

3 Register, Title and Transfers

3.1 Register

The Registrar will maintain a register (the “**Register**”) in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions the “holder” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “Noteholder” shall be construed accordingly. A Note will be issued to each Noteholder in respect of its registered holding.

3.2 Title

The holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note) and no person shall be liable for so treating such holder.

3.3 Transfers

3.3.1 A Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the specified office of the Registrar or at the specified office of any Paying and Transfer Agent (including, if and for so long as the Notes are listed on the Stock Exchange and the rules of the Stock Exchange so requires it, at the specified office of the Paying and Transfer Agent in Luxembourg), together with such evidence as the Registrar or the relevant Paying and Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Note will be issued to the transferor.

3.3.2 Subject to Condition 3.3.4, within five business days of the surrender of a Note in accordance with the immediately preceding paragraph above, the Registrar will register the transfer in question in the Register and deliver a new Note to each relevant holder at its specified office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, “business day” means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar has its specified office.

3.3.3 The transfer of a Note will be effected without charge but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

3.3.4 Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

4 Restrictive Covenants

4.1 Loan Agreement

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Assigned Contracts or the Notes Guarantees and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Assigned Contracts or the Notes Guarantees, except as otherwise expressly provided in the FAAFAs. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 15.

4.2 Conduct of Issuer

So long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee shall not, *inter alia*, incur any other indebtedness for borrowed moneys, engage in any other business (other than issuing the Notes, entering into the Loan and performing any act incidental to or necessary in connection with the foregoing), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in these conditions and the Trust Deed), issue any shares, give any guarantee or assume any other liability, or subject to the laws of Luxembourg, petition for any winding-up or bankruptcy.

4.3 Debt Service Reserve Account

As provided in the FAAFAs, the Issuer and the Borrower shall maintain a credit balance in USD on the Debt Service Reserve Account equal to the Security Balance as specified in the Pricing Supplement.

5 Interest

5.1 Interest Rate

The Notes bear interest on its Principal Amount Outstanding (as defined below) from the Closing Date specified in the Pricing Supplement at the Interest Rate specified in the Pricing Supplement, payable in respect of the period ending on each Payment Date.

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying and Transfer Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

5.2 Interpretation

The amount of interest payable for any interest period shall be calculated as specified in the Pricing Supplement and “**Payment Date**” is specified in the Pricing Supplement.

6 Redemption

6.1 Final Redemption

Unless previously prepaid or repaid or redeemed in full as provided in this Condition 6, each Note then remaining outstanding will be redeemed by the Issuer at its Principal Amount Outstanding (as defined below) together with accrued interest, if any on the Final Redemption Date specified in the Pricing Supplement.

“Principal Amount Outstanding” of a Note on any date shall be its original principal amount less the proportionate amount of all Amortisation Amounts (as defined below) relating to such Note and the aggregate principal amount of such Notes which has become due for redemption under Condition 6.3, in each case in respect of such Note which have become due and payable *provided that* the relevant amount payable to the Noteholders has been paid to them or has been paid to the Principal Paying and Transfer Agent and remains available for payment to the Noteholders. If the Issuer (or the Principal Paying and Transfer Agent on its behalf) does not at any time for any reason determine a Principal Amount Outstanding in accordance with the preceding provisions of this paragraph, such Principal Amount Outstanding may or may be caused to be determined by the Trustee in accordance with this paragraph and each such determination shall be deemed to have been made by the Issuer.

The Issuer will procure that the Luxembourg Stock Exchange (the “Stock Exchange”) is notified of the aggregate Principal Amount Outstanding of the Notes on the day on which such amount has been determined.

6.2 Scheduled Redemption

The Notes shall be repaid in instalments, if so specified in the Pricing Supplement, on each relevant Payment Date commencing on the Payment Date specified in the Pricing Supplement in the amortisation amount (each, an **“Amortisation Amount”**) set out opposite the relevant Payment Date in the table in the Pricing Supplement, provided that if any partial redemption of any Notes is made at any time, otherwise than in accordance with this Condition 6.2, then each Amortisation Amount pertaining to the Notes which falls to be paid after the date of the partial redemption so made shall be reduced by a proportion of such Amortisation Amount which is the same proportion as the partial redemption so made bears to the Principal Amount Outstanding of the Notes immediately prior to such partial redemption being made but after deducting any redemption made in accordance with this Condition 6.2 on the date such partial redemption is made.

6.3 Mandatory Redemption

- 6.3.1** If all or part of a tranche of the Loan is repaid prior to the Final Redemption Date (as defined in the Pricing Supplement) pursuant to Clause 5.3 of the Loan Agreement, each corresponding Note then remaining outstanding will thereupon become proportionately due and redeemable or repayable at its Principal Amount Outstanding together with accrued interest to the date of redemption and a Make Whole Premium (as defined in the Pricing Supplement) and the Issuer will give not less than eight days’ notice thereof to the Trustee and the Noteholders.
- 6.3.2** If the Loan should become repayable (and be repaid) pursuant to Clauses 5.2 or 5.4 of the Loan Agreement prior to the Final Redemption Date, each Note then remaining outstanding will thereupon become due and redeemable or repayable at its Principal Amount Outstanding together with accrued interest to the date of redemption and the Issuer will give not less than eight days’ notice thereof to the Trustee and the Noteholders.
- 6.3.3** The principal amount to be redeemed in respect of each Note under this Condition 6.3 shall be a *pro rata* share of the aggregate Principal Amount Outstanding of the Notes to be redeemed on such date (rounded down to the nearest cent).
- 6.3.4** The Issuer shall determine or shall cause to be determined by the Principal Payment Agent, if there is to be a partial redemption of any Notes pursuant to this Condition 6.3:
- (i) the principal amount of any Note to be so redeemed and the applicable redemption amount; and
 - (ii) the Principal Amount Outstanding of each Note on such date (after deducting the principal amount of such Note to be so redeemed on such date and the relevant Amortisation Amount due to be paid on that date).

Each determination by or on behalf of the Issuer of any amount referred to above shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

6.4 Issuer may Compel Sale

The Issuer, subject to the Borrower's written consent (which consent shall not be unreasonably withheld or delayed), may compel any beneficial owner of Notes initially sold pursuant to Rule 144A under the U.S. Securities Act of 1933 (the "**Securities Act**") to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is a U.S. person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and a qualified purchaser (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940).

6.5 Notice of Redemption

All Notes in respect of which any notice of redemption is given pursuant to this Condition 6 shall be redeemed on the date specified in such notice in accordance with this Condition. All Notes so redeemed will be cancelled and may not be re-issued or resold.

7 Payments

7.1 Payments of Principal

Payments of principal shall be made against presentation and surrender of the relevant Notes at the specified office of the Principal Paying and Transfer Agent or at the specified office of any Paying and Transfer Agent (including, if and for so long as the Notes are listed on the Stock Exchange and the rules of the Stock Exchange so requires it, at the specified office of the Paying and Transfer Agent in Luxembourg) or of the Registrar and in the manner provided in the paragraph below.

7.2 Payments of Interest

Interest shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest shall be made in the Specified Currency (as defined in the Pricing Supplement) by cheque drawn on a bank in the principal financial centre for the Specified Currency or, in the case of euro, in a city in which banks have access to the TARGET System (a "**Bank**") and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Paying and Transfer Agent (including, if and for so long as the Notes are listed on the Stock Exchange and the rules of the Stock Exchange so requires it, at the specified office of the Paying and Transfer Agent in Luxembourg) before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank, or by transfer to an account in the Specified Currency maintained by the payee with, a Bank in the principal financial centre of such Specified Currency or in the case of euro, a Bank specified by the payee or at the option of the payee, by a euro-cheque and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying and Transfer Agent or at the specified office of any other Paying and Transfer Agent.

7.3 Other Payments

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

7.4 Payment not on Business Day

If the due date for payments of interest or principal is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "business day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" in the Pricing Supplement, and (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or (ii) (in the case of a payment in euro) which is a TARGET Business Day.

7.5 Agents

The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying and Transfer Agent or any of the Paying and Transfer Agents, and appoint additional or other paying agents provided that (a) so long as the Notes are listed on the Stock Exchange and the rules of the Stock Exchange so require, there will be a paying and transfer agent with a specified office in Luxembourg or such other place in accordance with the rules of the Stock Exchange and (b) it will maintain a paying and transfer agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the Noteholders in accordance with Condition 15.

8 Taxation

All payments in respect of the Notes by or on behalf of the Issuer or in respect of the Notes Guarantees by or on behalf of the Notes Guarantors will be made without deduction or withholding for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of Luxembourg (in the case of the Issuer) and the Russian Federation (in the case of the Notes Guarantors) or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law. In such event, the Issuer or, as the case may be, the Notes Guarantors shall make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required provided that no such additional amount will be payable by the Issuer:

- 8.1 to a Noteholder who (a) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable for such taxes or duties by reason of his having some connection with Luxembourg or the Russian Federation other than the mere holding of such Note or the receipt of payments in respect thereof;
- 8.2 in respect of a Note presented for payment of principal more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on such 30th day;
- 8.3 where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- 8.4 in respect of a Note presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying and Transfer Agent in a Member State of the European Union.

As used herein, "**Relevant Date**" (i) means the date on which any payment under the Notes first becomes due but (ii) if the full amount payable has not been received by the Principal Paying and Transfer Agent or the Trustee on or prior to such date, it means the date on which such moneys shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 15. Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9 Notes Events of Default

If any of the following events ("**Notes Events of Default**") occurs, the Trustee at its discretion may, and if so requested by holders of at least 25 per cent. in principal amount of the Notes then

outstanding or if so directed by an Extraordinary Resolution shall (provided the Trustee shall have been secured and/or indemnified to its satisfaction), give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their Principal Amount Outstanding together with accrued interest:

- 9.1** The Issuer fails to pay within three Business Days any amount payable in respect of the Notes or any Additional Structured Export Notes issued by the Issuer as and when such amount becomes payable in the currency and in the manner specified herein or therein, provided that such default will not be a Note Event of Default if (i) it occurs by reason only of administrative or technical difficulties affecting the transfer of the funds due from the Issuer, (ii) the Issuer issued the appropriate transfer and payment instructions in sufficient time to permit the transfer and payment of the amount due to be made on its due date and (iii) the Principal Paying and Transfer Agent receives from the Issuer that amount within six Business Days after the due date for payment;
- 9.2** The Issuer becomes insolvent or bankrupt or is unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or (in the opinion of the Trustee) a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any such debts or a moratorium is agreed or declared in respect of or affecting all or (in the opinion of the Trustee) a material part of the debts of the Issuer or an order is made or an effective resolution is passed for the winding up or dissolution of the Issuer or the Issuer becomes subject to any insolvency, bankruptcy, *concordat préventif de faillite*, moratorium, controlled management (*gestion contrôlée*), suspension of payments (*sursis de paiement*), general settlement with creditors, composition, liquidation, reorganisation and any other similar legal proceedings affecting the Issuer or a *commissaire à la gestion contrôlée*, a *liquidateur*, a *commissaire*, a *curateur*, an *administrateur* or any similar officer is appointed as a consequence of the financial difficulties affecting the Issuer;
- 9.3** The Issuer or the Notes Guarantors do not perform or comply with any one or more of their respective other obligations under the Notes, the Notes Guarantees, the Assigned Contracts or the Trust Deed;
- 9.4** Any term of the Notes, the Notes Guarantees, the Assigned Contracts or the Trust Deed becomes illegal or unenforceable, or any government approval required in connection therewith is revoked;
- 9.5** Any term of the Notes, the Notes Guarantees, the Assigned Contracts or the Trust Deed is repudiated by the Notes Guarantors;
- 9.6** Either Notes Guarantee is not in full force and effect; or
- 9.7** Any Event of Default under the Loan Agreement occurs and the Issuer or Trustee pursuant to the terms of the Assignment of Rights accelerates the Loan.

10 Enforcement

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no such Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing.

The Trust Deed also provides that, in the case of an Event of Default (as defined in the Loan Agreement) the Trustee may, and shall, if requested to do so by Noteholders owning at least 25 per cent. in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, declare all amounts payable under the Loan Agreement by the Borrower or under the Loan Guarantee by Gazexport to be due and payable or make the Rouble Repayment Election, *inter alia*. Upon repayment of the Loan following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid and thereupon shall cease to be

outstanding. Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Assigned Contracts or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Assigned Contracts or the Notes Guarantees or direct recourse to the Borrower as Borrower under the Loan Agreement or to Gazexport as guarantor under the Loan Guarantee except through action by the Trustee pursuant to the Assignment of Rights.

11 Meetings of Noteholders; Modification of Notes, Trust Deed, Assigned Contracts and the Notes Guarantees; Waiver; Substitution of the Issuer

11.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes or the Trust Deed. Noteholders will vote pro rata according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amount payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not. The Trust Deed also contains certain provisions for common meetings between all holders of Notes and Additional Structured Export Notes. Those Notes which have been purchased by the Issuer or any subsidiary of the Issuer or the Borrower or any subsidiary of the Borrower and not cancelled shall (unless and until ceasing to be so retained) be deemed not to be outstanding, and shall not be eligible in respect of any vote as described in this Condition 11.1.

11.2 Modification and Waiver

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, the Trust Deed or, following the creation of the Assignment of Rights and subject to Clause 15.2 of the Trust Deed, the Loan Agreement and the other Assigned Contracts which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or any mistake or error which is proved, to the Trustee's satisfaction, to be such or is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions of the Notes or the Trust Deed or by the Borrower or by Gazexport of the terms of the Assigned Contracts and the Notes Guarantees, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (as a class). Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be promptly notified to the Noteholders.

11.3 Substitution of the Issuer

The Trust Deed contains provisions to the effect that the Issuer may, having obtained the consent of the Borrower and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such reasonable requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Assigned Contracts and the Notes Guarantees being assigned to the Trustee. In the event of any such substitution, the Stock Exchange shall be informed by the Issuer and a supplement to the Offering Circular relating to the Notes prepared, and the Issuer shall prepare such notices in connection with the substitution as are required by the Stock Exchange.

11.4 Powers of Trustee

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being

for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

12 Prescription

Notes will become void unless presented for payment of principal within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

13 Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified to its satisfaction. The Trustee's responsibilities are solely those of Trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Assigned Contracts and the Notes Guarantees or the assignment granted in respect thereof or for the performance by the Issuer, the Borrower and Gazexport of their respective obligations under or in respect of the Notes, the Trust Deed, the Assigned Contracts and the Notes Guarantees.

14 Replacement of Notes

If a Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of the Stock Exchange, be replaced at the specified office of the Registrar or at the specified office of the Paying and Transfer Agent in Luxembourg on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Notes must be surrendered before replacements will be issued.

15 Notices

All notices shall be deemed to have been duly given if (i) posted to such holders at their respective addresses as shown on the register of Noteholders maintained by the Registrar and (ii) so long as the Notes are listed on the Stock Exchange and the rules of the Stock Exchange so require, published in a leading daily newspaper of general circulation in Luxembourg approved by the Trustee, currently expected to be the *Luxemburger Wort*. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met. In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee shall constitute sufficient notice to such holders for every purpose hereunder.

16 Further Issues

The Issuer may, subject as provided in the FAAFAs and with the consent of the Trustee so long as the issue would not exceed the then applicable Program Limit and subject as further provided in the Trust Deed, from time to time, without the consent of the Noteholders, create and issue further tranches of notes or bonds having the same conditions as a tranche of the Notes in all respects (or in all respects except for the first payment of interest) so as to be consolidated and form a single series with the Notes. The Issuer may also from time to time, subject as provided in the FAAFAs and with the consent of the Trustee following receipt by the Trustee of a Rating Agency Affirmation, and subject as further provided in the Trust Deed, create and issue Additional Structured Export Notes. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes and Additional Structured Export Notes of other series in certain circumstances where the Trustee so decides. Any Series of Further Notes or Additional Structured Export Notes shall be constituted by a supplemental trust deed containing such provisions as the Trustee may require.

17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18 Governing Law

The Notes and the Trust Deed are governed by, and shall be construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the jurisdiction of the courts of England and has appointed an agent for the service of process in England. For the avoidance of doubt, the provisions of articles 86 to 94-8 of the Luxembourg law of 10 August 1915, as amended, on commercial companies are excluded.

Pricing Supplement

Pricing Supplement dated July 28, 2004

Series 1

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated July 28, 2004 and the Supplemental Offering Circular dated July 28, 2004. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular as so supplemented.

The U.S.\$1,250,000,000 7.201%. Structured Export Notes due February 1, 2020 (the “**Series 1 Notes**”, which expression includes any further Series 1 Notes issued pursuant to Condition 16 and forming a single series herewith), without coupons, of the Issuer are constituted by the Trust Deed. Each of the Notes Guarantors have unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed and the Series 1 Notes. The Notes Guarantees are supported by the Springing Assignments over the Export Contract Receivables each documented pursuant to the FAAFAs.

The Issuer has authorised the creation, issue and sale of the Series 1 Notes for the sole purpose of financing a U.S.\$1,250,000,000 loan (the “**Series 1 Loan**”) to the Borrower, guaranteed by Gazexport. The Issuer and the Borrower have recorded the terms of the Series 1 Loan in the Loan Agreement. The guarantee of the Series 1 Loan by Gazexport is recorded in the Loan Guarantee. In the event that the Trustee (as beneficiary of the Assignment of Rights) makes the Rouble Repayment Election, the Series 1 Loan will be repayable in Russian roubles. Such obligation to repay the Series 1 Loan in Russian roubles is secured by the Assignment.

The statements contained in this Pricing Supplement include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

1 Denomination

The Specified Denominations are U.S.\$1,000, U.S.\$10,000 and U.S.\$100,000, provided that Regulation S Notes shall be held in amounts not less than U.S.\$2,000 (together the “Specified Denominations”).

“**Specified Currency**” means U.S. dollars (“U.S.\$”).

2 Interest

The Notes bear interest on their Principal Amount Outstanding from July 29, 2004 (the “**Closing Date**”) at the Interest Rate payable semi-annually in arrear on each Payment Date.

2.1.1 “Interest Rate” means 7.201% per annum.

2.1.2 Interest basis

In respect of the calculation of an amount of interest on the Notes for any period of time (from and including the first day of such period to but excluding the last), the “Calculation Period” the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)). Notwithstanding the above, the amount of interest due on February 1, 2005 shall amount to U.S.\$45,506,319.44.

2.1.3 “Payment Date” means February 1 and August 1 in each year, commencing on February 1, 2005.

3 Redemption

3.1 Final Redemption

Unless previously prepaid or repaid or redeemed in full as provided in Condition 6, each Series 1 Note then remaining outstanding will be redeemed by the Issuer at its Principal Amount Outstanding together with accrued interest, if any on February 1, 2020 (the “**Final Redemption Date**”).

3.2 Scheduled Redemption

The Notes shall be repaid in instalments on each relevant Payment Date commencing on the Payment Date falling in February 1, 2007 in the Amortisation Amount set out opposite the relevant Payment Date in the table below. The figures below show the Amortisation Amount on each Payment Date.

<u>Payment Date</u>	<u>Amortisation Amount</u> <u>U.S.\$</u>
29/07/2004	
01/02/2005	0
01/08/2005	0
01/02/2006	0
01/08/2006	0
01/02/2007	57,806,918
01/08/2007	59,188,117
01/02/2008	62,872,978
01/08/2008	63,871,191
01/02/2009	67,441,041
01/08/2009	68,320,099
01/02/2010	72,475,989
01/08/2010	73,394,616
01/02/2011	77,733,399
01/08/2011	78,841,512
01/02/2012	83,234,712
01/08/2012	84,966,795
01/02/2013	89,296,964
01/08/2013	18,041,016
01/02/2014	19,176,103
01/08/2014	19,382,380
01/02/2015	20,565,812
01/08/2015	20,822,177
01/02/2016	22,016,876
01/08/2016	22,447,417
01/02/2017	23,619,441
01/08/2017	24,026,489
01/02/2018	25,377,302
01/08/2018	25,807,081
01/02/2019	27,222,069
01/08/2019	27,718,336
01/02/2020	14,333,171

3.3 Definitions

“**Make Whole Premium**” means the excess, if any (as reported in writing to the Issuer and the Trustee by a reputable financial institution operating in, the U.S. Treasury market in New York selected by the Issuer and approved in writing by the Trustee (the “**Financial Adviser**”) (and rounded, if necessary, to the third decimal place (0.0005 being rounded upwards)), of (a) the present value of the remaining scheduled payments of principal and interest on the Notes to be redeemed discounted at 50 basis points above the Treasury Rate over (b) the outstanding principal amount of the Notes being redeemed.

“Treasury Rate” means, a rate equal to the yield, as published by the Board of Governors of the Federal Reserve System, on actively traded U.S. Treasury securities, the maturity of which most closely matches the average life of the Notes selected by the Financial Adviser. If there is no such publication of this yield during the week preceding the calculation date, the Treasury Rate will be calculated by reference to quotations from selected primary U.S. Government securities dealers in New York City selected by the Financial Adviser. The Treasury Rate will be calculated on the third Business Day preceding the prepayment date.

“Financial Centre(s)” means New York.

“Business Days” means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in New York.

4 Debt Service Reserve Account

“Security Balance” means in amount equal to (a) during the period prior to February 1, 2007 equal to or greater than the amount of debt service (including costs and expenses) which will become payable on the first Payment Date on which principal is payable; and (b) after February 1, 2007, the largest amount of debt service (including costs and expenses) payable on any Payment Date (in each case calculated in USD as if the Rouble Repayment Election had not been made).

5 Responsibility

The Issuer and the Notes Guarantors accept responsibility for the information contained in this Pricing Supplement which, when read together with the Offering Circular and the Supplemental Offering Circular referred to above, contains all information that is material in the context of the issue of the Notes.

TRANSFER RESTRICTIONS

Rule 144A Notes

Each purchaser of Rule 144A Notes within the United States, by accepting delivery of this Offering Circular and the Rule 144A Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is (a) a qualified institutional buyer within the meaning of Rule 144A (a “QIB”) that is also a qualified purchaser as defined in Section 2(a)(51) of the Investment Company Act (a “QP”), (b) not a broker-dealer which owns and invests on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acquiring such Notes for its own account, or for the account of one or more QIBs each of which is also a QP, (e) not formed for the purpose of investing in the Notes or the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.
- (2) It will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than U.S.\$100,000 and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories.
- (3) It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs each of which is also a QP or (b) in an offshore transaction to a person who is not a U.S. person within the meaning of Regulation S under the Securities Act (“Regulation S”) in accordance with Rule 903 or Rule 904 of Regulation S, and in each case in accordance with any applicable securities laws of any State of the United States.
- (4) It understands that the Issuer has the power under the Trust Deed to compel any beneficial owner of Rule 144A Notes that is a U.S. person and is not a QIB and a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of, or purchase such interest from, such owner at the price described in the legend below. The Issuer has the right to refuse to honor the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and a QP.
- (5) It understands that the Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS SECURITY, THE LOAN AND THE CORRESPONDING LOAN AND NOTES GUARANTEES IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (A “QIB”) THAT IS A QUALIFIED PURCHASER (“QUALIFIED PURCHASER”) WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940 (THE “INVESTMENT COMPANY ACT”) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS EACH OF WHICH IS ALSO A QUALIFIED PURCHASER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, AND IN AN AMOUNT NOT LESS THAN U.S.\$100,000 PRINCIPAL AMOUNT OF NOTES OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”) IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S, AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFER IN VIOLATION OF THE FOREGOING

WILL BE OF NO FORCE OR EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS SECURITY, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR REALES OF THIS SECURITY.

IF THE BENEFICIAL OWNER HEREOF IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QUALIFIED PURCHASER; (2) IT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THIS SECURITY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS EACH OF WHICH IS ALSO A QUALIFIED PURCHASER; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS SECURITY; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS NOTES, WILL HOLD AND TRANSFER AT LEAST U.S.\$100,000 IN PRINCIPAL AMOUNT OF NOTES; (7) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTION TO ITS SUBSEQUENT TRANSFEREES. THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS SECURITY IT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S WHO IS NOT A QIB THAT IS ALSO A QUALIFIED PURCHASER, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS SECURITY TO A PERSON (I) WHO IS A U.S. PERSON WHO IS ALSO A QUALIFIED PURCHASER AND WHO IS OTHERWISE QUALIFIED TO PURCHASE THIS SECURITY IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) WHO IS NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS SECURITY TO THE ISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THIS SECURITY TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LEAST OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100% OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOR A TRANSFER OF AN INTEREST IN THIS SECURITY TO A U.S. PERSON WHO IS NOT A QIB AND A QUALIFIED PURCHASER. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

THE ISSUER MAY COMPEL THE HOLDER OF THIS SECURITY TO CERTIFY PERIODICALLY THAT SUCH HOLDER IS A QIB (DURING SUCH TIME THAT THIS SECURITY IS A “RESTRICTED SECURITY” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT) AND A QUALIFIED PURCHASER.

- (6) It acknowledges that the Issuer, Gazprom, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, Gazprom and the Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts who are QIBs that are also QPs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each such account.
- (7) It understands that the Rule 144A Notes will be evidenced by a global Note (the “Rule 144A Global Note”). Before any interest in the Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Regulation S Notes outside the United States and each subsequent purchaser of Regulation S Notes in resales (A) in the case of (1), (2) and (3) below, prior to the expiration of the distribution compliance period, and (B) in the case of (4) below, throughout the period that it holds such Note, by accepting delivery of this Offering Circular and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, Gazprom or a person acting on behalf of such an affiliate.
- (2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A in an amount of not less than U.S.\$100,000 to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs each of which is also a QP and who takes delivery thereof in the form of an interest in a Rule 144A Global Note (if applicable) or (b) in an offshore transaction to a person who is not a U.S. person within the meaning of Regulation S in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (3) It understands that the Regulation S Notes will be evidenced by a global Note (the “Regulation S Global Note”). Before any interest in the Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.
- (4) It acknowledges that the Issuer, Gazprom, the Registrar, the Managers and their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer, Gazprom and the Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

BOOK-ENTRY, DELIVERY AND FORM

The Global Notes

The Regulation S Notes will be evidenced on issue by the Regulation S Global Note deposited with, and registered in the name of a nominee for, HSBC Bank plc as common depositary for Euroclear and Clearstream, Luxembourg. Beneficial interests in the Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See “Book-Entry Procedures for the Global Notes.” By acquisition of a beneficial interest in the Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person, and that, if it determines to transfer such beneficial interest prior to the expiration of the 40 day distribution compliance period, it will transfer such interest only to a person whom the seller reasonably believes (a) to be a non-U.S. Person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) to be a person who is eligible to take delivery in the form of an interest in the Rule 144A Global Note. See “Transfer Restrictions.”

The Rule 144A Notes will be evidenced on issue by the Rule 144A Global Note deposited with LaSalle Bank N.A. as custodian for, and registered in the name of Cede & Co. as nominee of, DTC. Beneficial interests in the Rule 144A Global Note may only be held through DTC at any time. See “Book-Entry Procedures for the Global Notes.” By acquisition of a beneficial interest in the Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Trust Deed. See “Transfer Restrictions.”

Beneficial interests in Global Notes will be subject to certain restrictions on transfer set forth therein and in the Trust Deed and the Global Notes will bear the applicable legends regarding the restrictions set forth under “Transfer Restrictions.” A beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note only in denominations greater than or equal to the minimum denominations applicable to interests in the Rule 144A Global Note and only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any State of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) from the transferor to the effect that the transfer is being made to a non-U.S. Person and in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the “Definitive Notes”). The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

- *Payments.* Payments of principal and interest in respect of Notes evidenced by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying and Transfer Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes.
- *Notices.* So long as any Notes are evidenced by a Global Note and such Global Note is held on behalf of DTC, Euroclear, Clearstream, Luxembourg or another clearing system (such other clearing system, an “Alternative Clearing System”), notices to Noteholders may be given by delivery of the relevant notice to DTC, Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes provided that for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).
- *Meetings.* The holder of each Global Note will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of Notes for which the relevant Global Note may be exchanged.
- *Trustee’s Powers.* In considering the interests of Noteholders while the Global Notes are held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its account holders with entitlements to each Global Note and may consider such interests as if such account holders were the holders of any Global Note.
- *Cancellation.* Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date (as defined below), in whole but not in part, for Notes in definitive form if: (i) a Global Note is held by or on behalf of a (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note or ceases to be a “clearing agency” registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 which would not be suffered were the Notes in definitive form and a note to such effect signed by two Members of the Management Board of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the relevant Global Note for Definitive Notes on or after the Exchange Date (as defined below) specified in the notice.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Notes.

If only one of the Global Notes (the “Exchanged Global Note”) becomes exchangeable for Definitive Notes in accordance with the above paragraphs, transfers of Notes may not take place between, on the one hand, persons holding Definitive Notes issued in exchange for beneficial interests in the Exchanged Global Note and, on the other hand, persons wishing to purchase beneficial interests in the other Global Note.

“Exchange Date” means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar and any Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of the Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Notes issued in exchange for a beneficial interest in the Rule 144A Global Note shall bear the legend applicable to transfer pursuant to Rule 144A, as set out under “Transfer Restrictions.”

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under “Transfer Restrictions,” or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Bank will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-Entry Procedures for the Global Notes

Euroclear, Clearstream, Luxembourg and DTC

Custodial and depository links have been established between Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See “Book Entry Ownership—Settlement and Transfer of Notes.”

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (“Direct Participants”) or indirectly (“Indirect Participants”) and together with Direct Participants, “Participants”) through organizations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a “banking organization” under the laws of the State of New York, a

member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerized book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Rule 144A Global Note directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organizations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the principal amount of Rule 144A Global Note as to which such participant or participants has or have given such direction. However, in the circumstances described under “Exchange for Definitive Notes”, DTC will surrender the Rule 144A Global Note for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with HSBC Bank plc as common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

DTC

The Rule 144A Global Note will have a CUSIP number and will be deposited with LaSalle Bank N.A., as custodian (the “Custodian”) for and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants’ or accountholders’ accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for

such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "Beneficial Owner") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction. Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in the Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement ("SDFS") system in same-day funds, if payment is effected in U.S. Dollars, or free of payment, if payment is not effected in U.S. Dollars. Where payment is not effected in U.S. Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note (subject to the certification procedures provided in the Paying Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a

beneficial interest in the Rule 144A Global Note (subject to the certification procedures provided in the Paying Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 pm, Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefore on the Closing Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and purchasers of Notes between the date of pricing and the relevant Closing Date should consult their own advisor.

SUBSCRIPTION AND SALE

ABN AMRO Bank N.V., Merrill Lynch International and Morgan Stanley & Co. International Limited (together the “Managers”) have, pursuant to the terms and conditions set forth in a subscription agreement dated July 27, 2004 (the “Subscription Agreement”), jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions set forth therein, to subscribe and pay for the Notes at the issue price of 100% of the principal amount of the Notes. The Subscription Agreement also provides for the Managers to receive a combined management underwriting and selling commission of 1.60% of the aggregate principal amount of the Notes. The Company has agreed to pay a sum of U.S.\$6,574,668 to the Issuer in respect of all fees, costs and expenses incurred in connection with the loan and the offering of the Notes. The Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment being made to the Issuer. The obligations of the Company under the Subscription Agreement are guaranteed by Gazexport pursuant to a Subscription Support Agreement between the Issuer, Gazexport, and the Managers.

United States

Terms used in this section have the meanings given to them by Regulation S.

The Notes, the Loan and the corresponding Loan and Notes Guarantees have not been and will not be registered under the Securities Act or the securities laws of any other place. In the Subscription Agreement, each Manager has represented, warranted and undertaken that:

- the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act or in transactions not subject to those registration requirements; and
- except as permitted by the Subscription Agreement it will not offer or sell the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

The Notes are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S. The Subscription Agreement provides that the Managers may through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to persons whom they reasonably believe are QIBs and QPs who can represent that (a) they are QPs who are QIBs; (b) they are not broker-dealers who own and invest on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers; (c) they are not participant-directed employee plans, such as a 401(k) plan; (d) they are acquiring Notes for their own account, or the account of one or more QIBs each of which is also a QP; (e) they are not formed for the purpose of investing in the Notes or the Issuer; (f) each account for which they are purchasing will hold and transfer at least U.S.\$100,000 in principal amount of Notes at any time; (g) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositaries and (h) they will provide notice of the transfer restrictions set forth in this Offering Circular to any subsequent transferees.

In addition, until 40 days after commencement of the offering, an offer or sale of the Notes within the United States by a dealer not participating in the offering may violate the registration requirements of the Securities Act, unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act.

This Offering Circular has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States, the resale of the Notes in the United States and for the admission of Notes to the Luxembourg Stock Exchange. The Issuer and the Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States or to any U.S. person other than any QIB that is also a QP and to whom an offer has been made directly by one of the Managers or its U.S. broker-affiliate. Distribution of this Offering Circular by any non-U.S. person outside the United States or by any QIB that is also a QP in the United States to any U.S. person or to any other person within the United States, other than any QIB that is also a QP and those persons, if any, retained to advise such non-U.S. person or QIB that is also a QP with respect thereto, is unauthorized and any disclosure without the prior written

consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any QIB that is also a QP and those persons, if any, retained to advise such non-U.S. person or QIB that is also a QP, is prohibited.

United Kingdom

Each Manager has represented and agreed that (i) it has not offered or sold and, prior to the expiry of the period of six months from the issue date of the Notes, will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, (ii) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the “FSMA”) with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom and (iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantors.

The Russian Federation

Each Manager has represented and agreed that the Notes have not been and will not be offered or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

The Republic of Italy

The offering of the Notes in the Republic of Italy (“Italy”) has not been registered with the Commissione Nazionale per le Società e la Borsa (“CONSOB”) pursuant to Italian securities legislation and, accordingly: (i) the Notes cannot be offered, sold or delivered in Italy in a solicitation to the public at large (*sollecitazione all’investimento*), within the meaning of Article 1, paragraph 1, letter (t) of Legislative Decree no. 58 of February 24, 1998, (ii) the Notes cannot be offered, sold and/or delivered, either in primary or in the secondary market, to individuals in Italy and (iii) sales of the notes in the Republic of Italy will only be:

- (a) negotiated on an individual basis with “Professional Investors” (*operatori qualificati*), as defined under Article 31, paragraph 2, of CONSOB Regulation no. 11522 of July 1, 1998, as amended;
- (b) effected in compliance with Article 129 of the Legislative Decree no. 385 of September 1, 1993 and the implementing instructions of the Bank of Italy, if applicable;
- (c) effected in accordance with any other Italian securities, tax and exchange control and other applicable laws and regulations and any other applicable requirement or limitation which may be imposed by CONSOB or the Bank of Italy; and
- (d) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the relevant provisions of Italian law.

Luxembourg

The Notes are not offered to the public in or from Luxembourg and each Manager has represented, warranted and agreed that it will not offer the Notes or cause the offering of the Notes or contribute to the offering of the Notes to the public in or from Luxembourg, unless all the relevant legal and regulatory requirements of Luxembourg law concerning public offers have been complied with. In particular, this offer has not been and will not be announced to the public and offering material will not be made available to the public in or from Luxembourg. A listing of the Notes on the Luxembourg Stock Exchange does not necessarily imply that a public offering in or from Luxembourg has been authorized.

The Netherlands

The Notes may only be offered, sold, delivered or transferred, as part of their initial distribution or at any time thereafter, to or for the account of persons that qualify as professional market parties within

the meaning of the Exemption Regulation under the Dutch Banking Act 1992 (*Vrijstellingsregeling Wtk 1992*) that trade or invest in securities in the conduct of a profession or trade.

By purchasing a Note each Noteholder represents and agrees that it will send to each person to which it sells a Note (including rights representing an interest in a global Note) a confirmation or other notice setting forth these restrictions and stating that by purchasing a Note, such purchaser represents and agrees that it will send to any other person to which it sells a Note a confirmation or notice containing substantially the same statement as contained in this sentence.

Federal Republic of Germany

The Notes have not been and will not be publicly offered in Germany and, accordingly, no securities sales prospectus (*Verkaufsprospekt*) for a public offering of the Notes in Germany in accordance with the Securities Sales Prospectus Act of September 9, 1998 (the “Prospectus Act”) has been or will be published or circulated in the Federal Republic of Germany. Each Manager has represented and agreed that it has only offered and sold and will only offer and sell the Notes in the Federal Republic of Germany in accordance with the provisions of the Prospectus Act and any other laws applicable in the Federal Republic of Germany governing the issue, sale and offering of securities. Any resale of the Notes in the Federal Republic of Germany may only be made in accordance with the provisions of the Prospectus Act and any other laws applicable in the Federal Republic of Germany governing the sale and offering of securities.

General

No action has been or will be taken in any jurisdiction by the Issuer or the Managers that would permit a public offering of the Notes, or possession or distribution of any offering material (in preliminary, proof or final form) in relation thereto, in any country or jurisdiction where action for that purpose is required.

Each Manager has undertaken to the Issuer and the Company that it will, to the best of its knowledge and belief (having made such inquiries as is reasonable in each such country and jurisdiction), comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes such offering material, in all cases at its own expense.

Each Manager will also ensure that no obligations are imposed on the Company or the Issuer in any such jurisdiction as a result of any of the foregoing actions. Neither the Company nor the Issuer will have any responsibility for, and each Manager will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of the Notes under the laws and directives in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery.

No Manager is authorized to make any representation or use any information in connection with the issue, offering and sale of the Notes other than as contained in the Offering Circular or any amendment or supplement to it.

TAXATION

Prospective purchasers of the Notes are advised to consult their own tax advisors as to the consequences under the tax laws of the country of which they are residents of a purchase of Notes, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of Notes. The following is a general description of certain tax laws relating to the Notes, the Loan, the Loan Guarantee, and the Notes Guarantees as in effect on the date hereof and does not purport to be a comprehensive discussion of the tax treatment of the Notes.

Russian Federation

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of the Notes as well as concerning taxation of payments of interest on the Loan and payments under the Guarantees. The summary is based on the laws of Russia in effect on the date of this Offering Circular. The summary does not seek to address the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia, nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there may be practical difficulties involved in claiming double tax treaty relief. Prospective investors should consult their own tax advisors regarding the tax consequences of investing in the Notes in their own particular circumstances. No representation with respect to the Russian tax consequences to any particular holder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty. Further, the substantive provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets and more developed taxation systems. In this regard, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates. Interpretations by different tax inspectorates may be inconsistent or contradictory and may result in the imposition of conditions, requirements or restrictions not stated by the law. Similarly, in the absence of binding precedents, court rulings on tax or related matters by different courts relating to the same or similar circumstances may be inconsistent or contradictory.

For the purposes of this summary, a “non-resident holder” means a physical person actually present in Russia for an aggregate period of less than 183 days in a given calendar year (excluding days of arrival into Russia but including days of departure from Russia) or a legal person or organization in each case not organized under Russian law which holds and disposes of the Notes otherwise than through its permanent establishment in Russia.

Non-resident Holders

A non-resident holder will not be subject to any Russian taxes in respect of interest payments on the Notes received from the Issuer.

A non-resident holder also generally should not be subject to any Russian taxes in respect of a redemption, sale or other disposition of the Notes outside of Russia, provided that the proceeds of such disposition are not received from a source within Russia.

A non-resident holder that is a legal person or organization should not be subject to withholding tax on any gain on sale or other disposal of the Notes even if payment is received from a source within Russia. There is some uncertainty regarding the treatment of the portion of such proceeds, if any, that is attributable to accrued interest, which may be taxed at a rate of 20%, even if the disposal results in a capital loss. Non-resident holders that are legal persons or organizations should consult their own tax advisers with respect to this possibility. Withholding tax on interest may be reduced or eliminated in accordance with the provisions of an applicable double taxation treaty. Advance treaty relief should be available, subject to the requirements of the laws of Russia.

A non-resident holder that is a physical person will generally be subject to tax at a rate of 30%, subject to any available double tax treaty relief, in respect of the gross proceeds from a disposition of Notes less any available cost deductions (including the original purchase price) if the proceeds are received from a source within Russia. In this regard, if the Notes are disposed of to a resident of Russia and payment is made within or from Russia, the proceeds of such disposition are likely to be regarded for personal income tax purposes as received from a Russian source. The tax may be withheld at source of payment or, if the tax is not withheld, then the non-resident physical person may be liable to pay the tax.

There is some uncertainty regarding the treatment of the portion of proceeds attributable to accrued interest. Subject to reduction or elimination under provisions of an applicable tax treaty related to interest income, proceeds attributable to accrued interest may be taxed at a rate of 30%, even if the disposal results in a capital loss. There is a risk that the taxable base may be affected by changes in the exchange rates between the currency of acquisition of the Notes, the currency of sale and Roubles. In order to use the double taxation treaty relief a physical person should provide appropriate documentary proof of tax payments made outside of Russia on income with respect of which treaty benefits are claimed. Because of uncertainties regarding the form and procedures for providing such documentary proof, physical persons in practice may not be able to obtain advance relief on receipt of proceeds from a source within Russia and obtaining refund can be extremely difficult. Non-resident holders that are physical persons should consult their own tax advisors with respect to the tax consequences of the receipt of proceeds from a source within Russia in respect of a disposition of the Notes.

Resident Holders

A holder of Notes, who is a physical person resident in Russia for tax purposes or a legal person, which is not a non-resident in Russia, is subject to all applicable Russian taxes in respect of gains from a disposition of the Notes and interest received on the Notes. Resident Noteholders should consult their own tax advisors with respect to their tax position regarding the Notes

Taxation of Interest on the Loan

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal person are subject to Russian withholding tax at the rate of 20%, subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on professional advice it has received, Gazprom believes that payments of interest on the Loan should not be subject to withholding taxes under the terms of the double taxation treaty between the Russian Federation and the Grand Duchy of Luxembourg. However, there can be no assurance that such relief will be obtained.

Prior to January 1, 2002, a claim for treaty relief from Russian withholding tax was subject to preliminary approval by the Russian tax authorities after review of relevant contracts. As of January 1, 2002, such preliminary approval from and contract disclosure to the Russian tax authorities is no longer required. As a result of this new procedure, the Russian tax authorities may review the Issuer's eligibility for treaty relief in greater detail during tax audits.

If the payments under the Loan Agreement are subject to any withholding taxes (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding taxes), Gazprom is obliged to pay such additional amounts as may be necessary so that the net payments received by the Issuer will not be less than the amount it would have received in the absence of such withholding taxes. It should be noted, however, that gross-up provisions in contracts may not be enforceable under Russian law. In the event that Gazprom fails to pay additional amounts, such failure would constitute an Event of Default under the Loan Agreement. If Gazprom is obliged to pay additional amounts, it may prepay the Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest.

Taxation of payments under the Loan Guarantee and Notes Guarantees

Payments by the Gazprom and Gazexport under the Notes Guarantees to non-resident holders of the Notes may be regarded as Russian source income subject to withholding tax at a rate of 20% for legal entities and 30% for individuals on the entire amount paid under the Notes Guarantees (subject, in the case of individuals, to any available income tax deductions), subject to any available double tax treaty relief. However, double tax treaty relief may not be available if a Russian source payment is made to a person other than the beneficial owner of the payment. As a result, payments under the Notes Guarantees to the Trustee may be subject to Russian withholding tax, and Noteholders may be unable to obtain a refund of the tax withheld.

Payments relating to interest made to the Issuer under the Loan Guarantee may be regarded as Russian source income subject to withholding tax at a rate of 20% subject to reduction or elimination pursuant to the terms of any available double tax treaty relief.

Gross up provisions in contracts may not be enforceable under Russian law. Accordingly, some risk exists that any grossing-up obligations imposed upon Gazprom or Gazexport under the Loan Guarantee or Notes Guarantees might not be enforceable against Gazprom or Gazexport in the Russian Federation.

Payments under the Loan and Notes Guarantees should not be subject to Russian value added tax.

Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries. These tax treaties may contain provisions that could reduce or eliminate Russian tax due with respect to income received from Russian sources by a non-resident Noteholder. To obtain the benefit of a tax treaty, a Noteholder must comply on a timely basis with the certification, information, and reporting requirements in force in Russia. In practice, the Russian tax authorities may require documentary proof of entitlement to treaty benefits that are not explicitly required under the law. Because of these and other uncertainties regarding the form and procedures for claiming treaty benefits, Noteholders may in practice be unable to claim treaty benefits and obtain a refund of taxes previously withheld.

Non-resident Noteholders should consult their own tax advisors regarding the possible availability of double tax treaty benefits.

The Grand Duchy of Luxembourg

Luxembourg tax residency of the Issuer

The Issuer, receiving the interest paid on the Loan by the Company, as a Luxembourg resident company, will be considered to be a resident taxpayer in Luxembourg for the purposes of the application of the double tax treaty concluded by Luxembourg and Russia.

Luxembourg tax residency of the Noteholders

A Noteholder will not become resident, or be deemed to be resident, in Luxembourg solely by reason of holding Notes, or the execution, performance, delivery and/or enforcement of the Notes.

Withholding tax

Under Luxembourg tax law currently in effect, there is no withholding tax for Luxembourg resident and non-resident Noteholders on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax payable on payments received upon redemption, repurchase or upon a repayment of the principal of the Notes.

A Luxembourg withholding tax on payments to individual Noteholders (resident in another EU country than Luxembourg) may in the future be required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

Taxation of the Noteholders

Taxation of Luxembourg non-residents

Noteholders who are non-residents of Luxembourg and who have neither a permanent establishment nor a fixed base of business in Luxembourg with which the holding of the Notes is connected are not liable to any Luxembourg income tax, whether they receive payments of principal, payments of interest (including accrued but unpaid interest), payments received upon redemption or repurchase of the Notes, or realize capital gains on the sale of any Notes.

Taxation of Luxembourg residents—General

Noteholders who are residents of Luxembourg, or non-resident Noteholders who have a permanent establishment or a fixed base of business in Luxembourg with which the holding of the Notes is connected, must, for income tax purposes, include any interest received in their taxable income. They will not be liable for Luxembourg income tax on repayment of principal.

Luxembourg resident individuals

Luxembourg resident individual Noteholders or non-resident Noteholders who have a permanent establishment or fixed base of business in Luxembourg with which the holding of the Notes is connected are not subject to taxation on capital gains upon the disposal of the Notes, unless the disposal of the Notes

precedes the acquisition of Notes or the Notes are disposed of within six months of the date of acquisition of such Notes. Upon a repurchase or redemption of the Notes, individual Luxembourg resident Noteholders or non-resident Noteholders who have a permanent establishment or fixed base of business in Luxembourg with which the holding of the Notes is connected must however include the portion of the repurchase or redemption price corresponding to accrued but unpaid interest in their taxable income.

Luxembourg resident companies

Luxembourg resident companies (*société de capitaux*) Noteholders or foreign entities of the same type which have a permanent establishment in Luxembourg with which the holding of the Notes is connected, must include in their taxable income the difference between the sale or redemption price (including accrued but unpaid interest) and the lower of the cost or book value of the Notes sold or redeemed.

Luxembourg resident companies benefiting from a special tax regime

Noteholders who are holding companies subject to the law of July 31, 1929 or undertakings for collective investment subject to the law of December 20, 2002 are tax exempt entities in Luxembourg, and are thus not subject to any Luxembourg tax (i.e., corporate income tax, municipal business tax and net wealth tax).

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a Noteholder, unless (i) such holder is a Luxembourg resident or (ii) such Notes are attributable to an enterprise or part thereof which is carried on in Luxembourg through a permanent establishment or a permanent representative or (iii) such Notes are attributable to a fixed base of business in Luxembourg of the Noteholder.

Other Taxes

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by Noteholders as a consequence of the issuance of the Notes, nor will any of these taxes be payable as a consequence of a subsequent transfer, repurchase or redemption of the Notes.

There is no Luxembourg value added tax payable in respect of payments in consideration for the issuance of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of the Notes. Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg value added tax does not apply with respect to such services.

No gift, estate or inheritance taxes is levied on the transfer of the Notes upon death of a Noteholder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes.

European Union

On June 3, 2003, the European Union adopted a Directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required from a date not earlier than July 1, 2005 to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise. The withholding tax rate will initially be 15%, increasing steadily to 20% and to 35%. The ending of such transitional period depends on the conclusion of certain other agreements relating to information exchange with certain other countries.

United States

The following discussion summarizes certain U.S. federal income tax considerations that may be relevant to you if you invest in Notes and are a U.S. holder. You will be a U.S. holder if you are an individual who is a citizen or resident of the United States, a U.S. domestic corporation, or any other person that is subject to U.S. federal income tax on a net income basis in respect of an investment in the Notes. This summary deals only with U.S. holders that hold Notes as capital assets. It does not address

considerations that may be relevant to you if you are an investor that is subject to special tax rules, such as a bank, thrift, real estate investment trust, regulated investment company, insurance company, dealer in securities or currencies, trader in securities or commodities that elects mark to market treatment, person that will hold Notes as a hedge against currency risk or as a position in a “straddle” or conversion transaction, tax-exempt organization or a person whose “functional currency” is not the U.S. dollar.

This summary is based on laws, regulations, rulings and decisions now in effect, all of which may change. Any change could apply retroactively and could affect the continued validity of this summary.

You should consult your tax adviser about the tax consequences of holding Notes, including the relevance to your particular situation of the considerations discussed below, as well as the relevance to your particular situation of state, local or other tax laws.

Payments of Interest

Payments of stated interest (including any additional amounts paid in respect of withholding taxes) on a Note will be taxable to a U.S. holder as ordinary interest income at the time that such payments are accrued or are received (in accordance with the U.S. holder’s method of tax accounting). Generally, Amortisation Amounts received by a U.S. holder will constitute a return of principal and will not be taxable as income to such U.S. holder.

Stated interest (including any additional amounts paid in respect of withholding taxes) paid on the Notes will constitute foreign source income, and will generally be “passive income” (or “financial services income” in the hands of certain persons engaged in financial businesses) for purposes of computing the foreign tax credit allowable to a U.S. holder.

Subject to certain limitations, a U.S. holder may be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for foreign income taxes withheld by us (which would include amounts withheld on any additional amounts paid in respect of withholding taxes). A U.S. holder may be required to provide the IRS with a certified copy of the receipt evidencing payment of withholding tax imposed in respect of payments on the Notes in order to claim a foreign tax credit in respect of such foreign withholding tax. Prospective purchasers of the Notes should consult their tax advisers concerning the availability and timing of a foreign tax credit or deduction relating to the payment of these foreign taxes.

Purchase, Sale and Retirement of Notes

A U.S. holder’s tax basis in a Note generally will equal the cost of such Note to such holder reduced by any Amortisation Amounts made on such Note. Upon the sale, exchange or retirement of a Note, a U.S. holder generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (less any accrued stated interest, which will be taxable as such) and the U.S. holder’s tax basis in such Note. Gain or loss recognized by a U.S. holder generally will be considered U.S. source and will generally be long-term capital gain or loss if the U.S. holder has held the Note for more than one year at the time of disposition. Long-term capital gains recognized by an individual holder generally are subject to tax at a lower rate than short-term capital gain or ordinary income.

Information Reporting and Backup Withholding

A U.S. paying agent or other intermediary must file information returns with the United States Internal Revenue Service in connection with Note payments made to certain U.S. holders. If you are a U.S. holder, you generally will not be subject to United States backup withholding tax on such payments if you provide your taxpayer identification number to the paying agent. You may also be subject to information reporting and backup withholding tax requirements with respect to the proceeds from a sale of the Notes. If you are not a U.S. holder, you may have to comply with certification procedures to establish that you are not a U.S. holder in order to avoid information reporting and backup withholding tax requirements.

GENERAL INFORMATION

- (1) The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The common code of the Regulation S Notes is 019769500 and the ISIN is XS0197695009. The CUSIP number of the Rule 144A Notes is 36828TAA8, the common code is 019769542 and the ISIN is US36828TAA88. In addition, application has been made for the Rule 144A Notes to be designated as eligible for trading through PORTAL.
- (2) In connection with the application to list the Notes on the Luxembourg Stock Exchange, a legal notice relating to the issue of the Notes and a copy of the Articles of Incorporation of the Issuer, Gazprom and Gazexport (together with English translations thereof) have been deposited prior to listing with the Register of Commerce and Companies in Luxembourg ("*Registre de Commerce et des Sociétés à Luxembourg*") where such documents may be examined and copies obtained on request.
- (3) Gazprom, Gazexport and the Issuer have obtained all necessary consents, approvals and authorizations in the Russian Federation and Luxembourg, as the case may be, in connection with the Notes Guarantees and the issue and performance of the Notes. The Gazprom Notes Guarantee was authorized by the Resolution of the Board of Directors of Gazprom passed on June 24, 2004 and amended on July 28, 2004. The Gazexport Notes Guarantee and the Loan Guarantee were authorized by the Resolution of the only participant of Gazexport passed on July 2, 2004 and amended on July 26, 2004. The issuance of the Notes was authorized by the Issuer by a resolution of the board of directors passed on July 27, 2004.
- (4) According to chapter VI, Article 3, point A/ii/2 of the Rules and Regulations of the Luxembourg Stock Exchange, the securities shall be freely transferable, and therefore no transaction on the Luxembourg Stock Exchange shall be cancelled.
- (5) The Issuer is a recently incorporated company and, accordingly, has no historical financial statements. There has been no material adverse change in the financial position of the Issuer since the Issuer's incorporation on June 28, 2004, and the Issuer does not currently have any material indebtedness, other than the Notes described in this document. Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position or prospects of Gazprom, Gazexport or the Group since December 31, 2003 and no material adverse change in the financial or trading position or prospects of Gazprom, Gazexport or of the Group since December 31, 2003.
- (6) Except as disclosed in this Offering Circular, neither the Issuer, Gazprom, Gazexport nor any of Gazprom's subsidiaries is involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of the issue of the Notes nor, so far as any of the Issuer, Gazprom or Gazexport is aware, is any such litigation or arbitration pending or threatened.
- (7) Copies in English of the latest annual report and consolidated annual accounts of Gazprom, the latest annual accounts of the Issuer, the latest non-consolidated annual statutory financial (accounting) reports of Gazexport prepared in accordance with RAR and the latest interim consolidated unaudited accounts of Gazprom published as set forth in (8) below, may be obtained free of charge at the specified offices of the Trustee and the Paying and Transfer Agent in Luxembourg during normal business hours, and copies of the Trust Deed in respect of the Notes (including the forms of the Global Notes and Definitive Notes), the Paying Agency Agreement, the Loan Agreement and the FAAFAs will be available for inspection, at the specified offices of the Trustee and the Paying and Transfer Agent in Luxembourg during normal business hours, so long as any of the Notes are outstanding.
- (8) Gazprom publishes interim consolidated unaudited condensed financial statements, prepared in accordance with IAS 34, for the three-month period ended March 31, for the six-month period ended June 30 and for the nine-month period ended September 30 in each year. Gazprom does not publish audited or unaudited interim or year-end consolidated or non-consolidated financial statements prepared in accordance with U.S. GAAP. Neither the Issuer nor Gazexport is required to, or does, prepare financial statements in accordance with IFRS or U.S. GAAP. Gazexport does not publish consolidated or interim financial information. The Issuer expects that its annual non-consolidated financial statements prepared in accordance with Luxembourg GAAP will be made available in English, free of charge, at the office of the Paying and Transfer

Agent in Luxembourg shortly after their approval by the shareholders of the Issuer in their annual general meeting, which is to be held in accordance with the Articles of Incorporation of the Issuer on July 15 of each year, and does not expect to publish interim financial statements or consolidated financial statements.

- (9) Certain information with respect to Gazprom's natural gas, gas condensate and crude oil reserves associated with Gazprom's natural gas, gas condensate and crude oil properties is derived from the report of DeGolyer and MacNaughton, an internationally recognized firm of independent reservoir engineers, as at December 31, 2003, and has been included herein upon the authority of said firm as experts with respect to the matters covered by such report and in giving such report.
- (10) The Issuer and the Guarantors have agreed that, for so long as any Securities are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer or one of the Guarantors will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or Trustee, the information required to be provided by Rule 144A(d)(4) under the Securities Act.
- (11) Each time the Issuer or one of the Guarantors sends an annual or other periodic report to the holders of Rule 144A Notes, they will include a reminder that: (a) each holder of Rule 144A Notes that is a U.S. person is required to be a QIB and a QP that can make the representations set forth in "Transfer Restrictions—Rule 144A Notes," (b) the Rule 144A Notes can only be transferred to a U.S. person if such person is a QIB that is also a QP which is capable of making the same representations, and (c) the Issuer has the right to force any holder of Rule 144A Notes that is a U.S. person and is not a QIB and a QP to sell or redeem its Rule 144A Notes.

OVERVIEW OF THE RUSSIAN GAS INDUSTRY AND ITS REGULATION

The information set forth in this section is based on publicly available information, including Russian legislation and regulatory acts.

General

The Russian natural gas industry developed during the Soviet era and expanded rapidly after the discovery in the 1960s of significant reserves in the exceptionally large natural gas fields of western Siberia. Russia experienced a profound crisis in the early 1990s as a result of the dissolution of the Soviet Union, suffering a decline in industrial production and GDP.

Despite the crisis and structural transformation of the economy in 1990 through 1999, total natural gas production declined by only 8.8% over the period, whereas the production of oil and coal declined by 37.2% and 35%, respectively. The share of gas in the total amount of energy resources consumption increased from 42% to 50%, primarily because domestic natural gas prices were maintained at a low level.

After the dissolution of the Soviet Union, the oil and coal industries were restructured into several regional enterprises (most of which have subsequently been privatized) whereas the natural gas industry (including production, refining, transportation and sales) has remained unified.

Classification of Reserves

Russian methods for calculating and classifying reserves differ from generally accepted practices in the United States and other countries. Reserves that are calculated using different methods cannot be accurately reconciled.

Categories of reserves and potential and forecasted oil and natural gas resources

Natural gas, gas condensate and oil reserves are categorised under the Russian reserves system based on their physical presence in a deposit. Explored reserves are represented by categories A, B and C1; preliminary estimated reserves are represented by category C2; potential resources are represented by category C3; and forecasted resources are represented by the categories D1 and D2. For a description of categories A, B and C1, see “Gazprom—Reserves and Production.”

Category C2 reserves are preliminary estimated reserves of a deposit calculated on the basis of geological and geophysical research of unexplored sections of deposits adjoining sections of a field containing reserves of higher categories and of untested deposits of explored fields. The shape, size, structure, level, reservoir types, content and characteristics of the hydrocarbon deposit are determined in general terms based on the results of the geological and geophysical exploration and information on the more fully explored portions of a deposit. Category C2 reserves are used to determine the development potential of a field and to plan geological, exploration and production activities.

Category C3 resources are prospective reserves prepared for the drilling of (i) traps within the oil-and-gas bearing area, delineated by geological and geophysical exploration methods tested for such area and (ii) the formation of explored fields which have not yet been exposed by drilling. The form, size and stratification conditions of the assumed deposit are estimated from the results of geological and geophysical research. The thickness, reservoir characteristics of the formations, the composition and the characteristics of hydrocarbons are assumed to be analogous to those for explored fields. Category C3 resources are used in the planning of prospecting and exploration work in areas known to contain other reserve bearing fields.

Category D1 resources are calculated based on the results of regional geological, geophysical and geochemical research and by analogy with explored fields within the region being evaluated. Category D1 resources are reserves in lithological and stratigraphic series that are evaluated within the boundaries of large regional structures confirmed to contain commercial reserves of oil and gas.

Category D2 resources are calculated using assumed parameters on the basis of general geological concepts and by analogy with other, better studied regions with explored oil and gas fields. Category D2 resources are reserves in lithological and stratigraphic series that are evaluated within the boundaries of large regional structures not yet confirmed to contain commercial reserves of oil and gas. The prospects for these series to prove to be oil-and gas-bearing are evaluated based on geological, geophysical and geochemical research.

The evaluation of gas reserves in newly discovered natural gas or oil-and-gas deposits is carried out under the Russian reserves system using the volume method. The volume method determines the volume

of reserves by examining the filtration and capacitive parameters of the deposit based on (i) the area of the deposit; (ii) the effective depth of hydrocarbon saturation; and (iii) the porousness of the deposit and the level of saturation of the hydrocarbons, taking into account thermobaric conditions.

The evaluation of natural gas reserves in deposits already under development is carried out under the Russian reserves system using both the volume method and the material balance method. The material balance method takes into account temporal changes in the effective reservoir pressure as a result of the extraction of the hydrocarbons and the resultant influx of water.

Russian Regulation

The Russian legal system's rapid evolution during the last ten years is particularly evident in the context of natural gas industry regulation. Below is a brief overview of some key aspects of the current regulatory regime for the natural gas industry.

The regulation of legal and economic relations in the Russian natural gas industry is based on the following legislation: the Constitution of the Russian Federation, the Civil Code, the Subsoil Resources Law, the Natural Monopoly Law, the Gas Supply Law and the Federal Law "On the Continental Shelf of the Russian Federation" No. 187-FZ dated November 30, 1995. The most important recent piece of legislation is the Gas Supply Law, which establishes a regulatory framework for natural gas supply in the Russian Federation.

Under the Gas Supply Law, Russian federal authorities have jurisdiction over natural gas supplies, including, *inter alia*, the development and implementation of Government policy on natural gas supply; the regulation of strategic natural gas reserves; control over the industrial and environmental safety of the natural gas supply systems; meterological support; and standardization and certification.

The Government (i) sets the projected natural gas production levels and the sales balance in Russia; (ii) determines the level of natural gas prices and natural gas transportation tariffs; (iii) regulates natural gas deliveries; (iv) sets procedures for providing independent organizations with access to the natural gas transportation and distribution networks; and (v) defines the categories of customers to whom natural gas deliveries cannot be restricted or suspended.

Prior to March 12, 2004, the Ministry of Energy was responsible for the practical implementation of Government fuel and energy industry policy and the coordination of the activities of the federal executive bodies. The Ministry of Energy was abolished from March 12, 2004, the effective date of Decree of the President of the Russian Federation No. 314 of March 9, 2004 ("Decree No. 314"). The rule-making authority of the former Ministry of Energy has now been transferred to the newly established Ministry of Industry and Energy, while the law enforcement authority and the functions of providing state services and property management have been transferred to the newly established Federal Energy Agency.

Prior to the effective date of Decree No. 314, the Ministry of Natural Resources of the Russian Federation was responsible for regulating the exploration, use and protection of natural resources and for licensing the exploration and production of subsoil resources. Since the effective date of Decree No. 314, the control and surveillance functions of the Ministry of Natural Resources have been transferred to the newly established Federal Service for Surveillance in the Sphere of Ecology and Environmental Use, and the law enforcement functions of the Ministry, as well as its functions of providing state services and of property management related to subsoil use have been transferred to the newly established Federal Agency for Subsoil Use. According to Decree of the President of the Russian Federation No. 649 of May 20, 2004, starting from May 22, 2004 the Federal Service for Surveillance in the Sphere of Ecology and Environmental Use was reorganized into the Federal Service for Surveillance in the Sphere of Environmental Use, and its ecology surveillance functions were transferred to the newly created Federal Service for Ecological, Technological and Nuclear Surveillance.

The Constitution of the Russian Federation stipulates that the use of subsoil is under the joint jurisdiction of the federal and regional authorities.

Under the Gas Supply Law, regional governing authorities have substantial power to regulate projects related to the exploration of oil and natural gas fields and the transportation and refining of oil and natural gas. In cooperation with the Federal Agency for Subsoil Use, which acts on the basis of the Government Resolution No. 293 of June 17, 2004, regional authorities grant licenses for the exploration and production of subsoil resources (except for subsoil plots located in Russia's internal waters, territorial seas or on its continental shelf which fall under exclusive federal jurisdiction). Regional authorities usually also have jurisdiction over land use, environmental, employee health and safety, social security and certain

financial regulations. In accordance with the Gas Supply Law the joint jurisdiction of the federal and regional authorities covers the development and implementation of interregional gas programs, licensing, control over effective use of gas and supervision over the safety of the delivery and use of gas. The relationship between the relevant federal, regional and local authorities, as well as between any one natural gas company and such authorities, has a significant impact on the conditions under which a natural gas company can operate in any particular region.

Subsoil Licensing

In 1992, the Subsoil Resources Law introduced a licensing system governing the study, exploration and production of natural resources from the subsoil in Russia. Until 1995, licenses for fields where exploration and production was already in process were granted without a tender offer. Licenses for new fields and subsoil plots, however, were awarded through auctions or tenders conducted by the governing body of the relevant regional government and the Ministry of Natural Resources. The most important criterion for granting the license at these auctions was the lump sum amount the bidder was prepared to pay for the right to use the subsoil, but technical, environmental, safety and national security factors were also taken into consideration.

In certain instances, such as upon the enactment of production sharing agreements between the development company, investors and regional and federal governments, the Subsoil Resources Law allows for licenses to be issued without a tender procedure.

Licensing agreements for subsoil use identify the terms and conditions for the use of the subsoil, the rights and obligations of the licensee and the manager of the subsoil plot and the level of payments. There are usually three parties to any licensing agreement: the regional authority of the region where the field is located, the Ministry of Natural Resources and the licensee.

There are several types of licenses applicable to the study, exploration and production of natural resources including: (i) licenses for geological exploration and assessment of the subsoil plot; (ii) licenses for the production of natural resources; and (iii) combined licenses for exploration, assessment and production of natural resources. Under the Subsoil Resources Law, licenses are granted for the term stipulated in the license. Prior to January 2000, exploration and assessment licenses could have a maximum term of five years, production licenses a maximum term of 20 years, and combined exploration, assessment and production licenses a maximum term of 25 years. After the enactment of amendments to the Subsoil Resources Law in January 2000, exploration and assessment licenses still may have a maximum term of five years; production licenses may have a short one-year term or a term of the expected operational life of the field based on a feasibility study report; and combined exploration, assessment and production licenses can also be issued for the term of the expected operational life of the field based on a feasibility study report. In practice, production licenses continue in many cases to be issued for 20 years and combined exploration, assessment and production licenses for 25 years. Furthermore, in practice, while a license may be officially indexed as a production license, it may also authorize exploration and assessment activities. The Subsoil Resources Law allows the subsoil user to request an extension of the existing license in order to complete either the development of the field or the procedures necessary to vacate the land once the exploitation of the subsoil is complete, provided such user complies with the terms and conditions of the license. Indefinite term licenses are provided for the construction and operation of waste burial facilities, and underground storage facilities.

Licenses granted in accordance with the Subsoil Resources Law cannot be sold or transferred to another entity except in limited circumstances, such as to a spin-off company or a subsidiary in which the licensee has a 50% or greater share. Generally, a license cannot be held by more than one legal entity.

Under a licensing agreement, the licensee makes a number of commitments. For example, the licensee agrees to bring the field on stream by a certain date; to extract an agreed volume of natural resources each year; to keep environmental pollutants within specified limits; and to clean up environmental contamination. When the license expires, the licensee must return the relevant land, at its own expense, to a condition which is adequate for future use. The licensee can be fined or the license can be revoked in the event that it remains unused for a period of time, as a result of repeated or significant breaches of the law or the conditions of the license, upon the occurrence of a direct threat to the lives or health of people working or residing in an area where licensed activities are carried on, or upon the occurrence of *force majeure* events.

Although most of the conditions set out in a license are based on mandatory rules contained in Russian law, there are a number of provisions in a licensing agreement which are negotiated between the parties.

The holder of an exploration, assessment and production license is subject to a quarterly natural resources production tax, which for natural gas is calculated as a percentage of the value of the resources extracted. The rate for the production of gas changed to a fixed rate of RR107 per mcm of gas produced from January 1, 2004, from 16.5% of the regulated price of gas per unit volume of natural gas production.

A holder of a license for exploration and assessment of hydrocarbons is to make quarterly payments for the use of the subsoil based on the total area of its allotment and a rate ranging from RR120 to RR360 per square meter. Fees for combined exploration, assessment and production licenses are negotiated by the parties to each license.

These payments for subsoil are in addition to relevant tax obligations applicable to the license holder in accordance with general tax legislation.

The Unified Gas Supply System

The UGSS is defined by the Gas Supply Law as a centrally managed, technologically and economically regulated system of gas production, transportation, storage and supply.

Gazprom is currently the owner of the UGSS. Under the Gas Supply Law the owner of the UGSS has a number of responsibilities, including ensuring a reliable supply of natural gas within Russia; maintaining and developing the UGSS network; monitoring the function of UGSS facilities; ensuring the natural gas supply agreements entered into by Russia; procuring the use of equipment and processes for power-saving and environmental safety in the UGSS; ensuring industrial safety within the UGSS; and disaster management.

The Gas Supply Law does not permit the division of the UGSS or the liquidation of its owner without the consent of the Government. The Gas Supply Law also regulates the ownership of shares in the company which owns the UGSS. In particular, foreign persons and companies are not permitted to own more than 20% of the owner's issued ordinary shares and at least 35% of the owner's issued ordinary shares must be owned by the Government. The sale or any other transfer of title of such owner's shares can only be carried out if a federal law is issued permitting such sale or transfer.

Transportation and Supply of Gas

The relationship between natural gas suppliers and off-takers is governed by the Regulation on Natural Gas Supplies within the territory of the Russian Federation approved by Government Resolution No. 162 dated February 5, 1998.

A right of priority to enter into natural gas supply agreements is given to off-takers that purchase natural gas for the Government, utility, consumers and households, and to certain off-takers wishing to extend their existing natural gas supply agreements.

In accordance with Government Resolution No. 858 dated July 14, 1997, Gazprom is obliged to provide independent suppliers with access to its natural gas transportation system in Russia. This requirement is subject to the availability of spare capacity in the natural gas transportation system, natural gas from independent suppliers being of sufficient quality and the availability of connecting and branch pipelines to consumers.

In accordance with the Gas Supply Law, consumers are obliged to pay for natural gas supplies and transportation services. If consumers fail to make such payments, suppliers have the right to limit or suspend natural gas supplies to such consumers in accordance with specific procedures provided for by a number of Government resolutions. The Government of the Russian Federation has, however, issued a number of resolutions (e.g., Government Resolution No. 1 dated January 5, 1998 and Government Resolution No. 364 dated May 29, 2002) regulating the restriction or suspension of supplies to certain customers. These consumers include, inter alia, medical institutions, military units, nuclear plants, communication organizations and certain vital utilities.

Prices and Tariffs

Gas prices and transportation tariffs in Russia are regulated by the Natural Monopoly Law and the Gas Supply Law as well as by a number of supplemental Government resolutions. Government Resolution No. 1021 "On State Regulation of Gas Prices and Tariffs for Gas Transportation in the Territory of the Russian Federation" dated December 29, 2000, as amended ("Resolution No. 1021"), sets out the main provisions relating to natural gas prices and transportation tariffs.

Prior to the effective date of Decree No. 314, the Federal Energy Commission of the Russian Federation (“FEC”), and after the effective date of Decree No. 314 the Federal Service for Tariffs (“FTS”) regulates natural monopolies and establishes and regulates natural gas prices and tariffs. Decree No. 314 transfers the control and surveillance functions in the sphere of regulation of natural monopolies to the Federal Antimonopoly Service (the “FAS”). In accordance with Resolution No. 1021, the FEC, or its successor, establishes the level of:

- wholesale natural gas prices;
- tariffs for gas transportation services through trunk pipelines for independent organizations;
- tariffs for gas transportation through pipelines owned by independent gas transportation organizations;
- tariffs for gas transportation through supply networks; and
- payments for the supply and marketing services rendered by gas distribution companies to end-users.

Environmental Requirements

Russian environmental legislation establishes a “pay-to-pollute” regime administered by the Ministry of Natural Resources and local authorities. Starting from March 12, 2004, the Federal Service for Surveillance in the Sphere of Ecology and Environmental Use was created under the auspices of the Ministry of Natural Resources (as well as the Federal Agency for Subsoil Use), and the control and surveillance functions of the Ministry of Natural Resources were transferred to this service. According to Decree of the President of the Russian Federation No. 649 of May 20, 2004, starting from May 22, 2004 the Federal Service for Surveillance in the Sphere of Ecology and Environmental Use was reorganized into the Federal Service for Surveillance in the Sphere of Environmental Use, and its ecology surveillance functions were transferred to the newly created Federal Service for Ecological, Technological and Nuclear Surveillance, which is the authority responsible for administering the “pay-to-pollute” regime. Fees are assessed for both pollution within the limits agreed on emissions and effluents and for pollution in excess of these limits. There are additional fines for certain other breaches of environmental regulations. The environmental protection legislation contains an obligation to make compensation payments to the budget for all environmental losses caused by pollution. In the event of a dispute concerning losses caused by breaches of environmental laws and regulations, the prosecutor’s office or other authorized governmental bodies may bring suit, though there is no private right of action. Courts may impose clean-up obligations subject to the agreement of the parties in lieu of or in addition to imposing fines.

Exploration licenses and production licenses generally require certain environmental commitments. Although such commitments may be stringent in a particular license, the penalties for failing to comply and clean-up requirements are generally low.

Regulating the Activities of Natural Monopolies

The Natural Monopoly Law defines “natural monopoly” as a condition of the commodities market in which the demand for products is satisfied more effectively in the absence of competition and in which another product cannot readily be substituted for the monopoly product. The Natural Monopoly Law sets out, inter alia, a regime for the regulation of entities which have a natural monopoly over natural gas transportation. It also established an authority (prior to the effective date of Decree No. 314, the FEC) which supervises:

- transactions involving the acquisition by a natural monopoly entity of title to (or the rights to use) assets where the value of such assets exceeds 10% of the natural monopoly entity’s own capital (as calculated in accordance with its latest audited balance sheet). Such transactions may not be related to the industry of the natural monopoly entity;
- investments whose value exceeds 10% of the natural monopoly entity’s own capital (as calculated in accordance with its latest audited balance sheet). Such investments may not be related to the industry of the natural monopoly entity; and
- sales, leases or other transactions, whereby the natural monopoly entity disposes of assets used in the industry that it monopolizes where the value of such assets exceeds 10% of the value of the natural monopoly entity’s own capital (as calculated in accordance with its latest audited balance sheet).

Pursuant to Decree No. 314, the rule-making authority previously held by the FEC has been transferred to the Ministry of Economy and Trade and the control and surveillance functions previously held by the FEC have been transferred to the FAS, which will supervise the activities set forth in the Natural Monopoly Law. The FTS has been charged with the authority to set tariffs that previously belonged to the former Ministry for Antimonopoly Policy and Support of Entrepreneurship and the Ministry of Economic Development and Trade.

The relevant authority can penalize a natural monopoly entity and insist that it take certain actions if the entity breaches the Natural Monopoly Law. The relevant authority may also access information on a natural monopoly entity, whether it be held by such entity itself, Government bodies or local authorities.

The principal methods of regulating the activities of natural monopolies by relevant supervising authorities are:

- price regulation; and
- identifying consumers entitled to obligatory services and setting natural monopoly minimum supply levels for such consumers (with a view to protecting the rights and legal interests of citizens, state security, the environment and cultural values).

As a natural monopoly entity, Gazprom must submit ongoing reports on its activities and drafts of capital investment plans to the relevant supervisory authority pursuant to the Natural Monopoly Law. Such supervisory authority has the right (i) to implement, amend or suspend the Natural Monopoly Law regulations; (ii) to instruct natural monopoly entities to enter into contracts with those consumers entitled to obligatory service; (iii) to make amendments to existing contracts; (iv) to transfer revenues from activities which contravene the Natural Monopoly Law to the federal budget; and (v) to fine natural monopoly entities for violations of the Natural Monopoly Law.

Energy Charter Treaty

The Energy Charter (“EC”) was conceived at a meeting of the European Council in June 1990 as a means to strengthen the relationship which existed in the energy sector between the USSR, the countries of central and eastern Europe and the countries of western Europe. The EC was officially adopted in December 1991. It is a political declaration on co-operation between east and west in the energy sector and is not legally binding on any of its parties. At present, the EC has been signed by 52 countries, including the countries of the European Union.

In December 1994, following three years of negotiations, the general intentions contained in the EC were put into a legally binding form, the Energy Charter Treaty (the “ECT”). As of December 2003, the ECT had been signed by 52 countries, including Russia and the member states of the EU, and had been ratified by 47 countries.

The main objectives of the ECT are to: (i) provide a stable energy supply; (ii) provide effective production, processing, transportation, distribution and consumption of energy resources; (iii) assist in the development of the European energy market and the improvement of the global energy market through implementing principles of non-discriminatory access and free market pricing; and (iv) legally protect the interests of energy-related companies and entities on issues relating to investments, transit, trade and dispute resolution procedures.

Although Russia signed the ECT in December 1994, the State Duma has not yet ratified it, in part due to concerns regarding the impact of the ECT on pipeline access. Although Russia has not ratified the ECT, it is a member of the Energy Charter Conference and participates in the Energy Charter Secretariat’s day-to-day activities.

European Union Gas Directive

On June 22, 1998, the European Parliament and the Council of the European Union adopted a directive on common rules for the internal market in natural gas (the “1998 Gas Directive”). The 1998 Gas Directive came into force on August 10, 1998, and member states were required to implement its provisions by August 2000. A new Gas Directive was adopted in June 2003 (the “2003 Gas Directive,” and together with the 1998 Gas Directive, the “Gas Directives”), replacing the prior Gas Directive, and member states were required to implement its provisions by July 1, 2004.

The 1998 Gas Directive has established common rules for the transmission, distribution, supply and storage of natural gas. The 2003 Gas Directive sets out rules for the organization of the natural gas sector

(including liquified natural gas), access to the market, the operation of transmission and distribution systems, and the criteria and procedures for authorizing the transmission, distribution, supply and storage of natural gas in order to open domestic gas markets to competition. The 2003 Gas Directive provides that all non-household customers have the right to choose their supplier no later than July 1, 2004, with all customers to have this right by July 1, 2007. Member states may accelerate the rate at which they open their markets. While the 1998 Gas Directive provided for the possibility of both regulated and market-based access by third parties to gas transportation and distribution systems and to liquified natural gas terminals, the 2003 Gas Directive only provides for regulated access to such facilities. Such access shall be based on the tariffs that become effective only upon their publication and shall apply uniformly to all consumers.

The implementation of the 1998 Gas Directive has already led to significant structural changes in the European natural gas market. The Gas Directive is bringing about a significant liberalization of the European natural gas market, which goes further than the Directive's minimum requirements. Even prior to the adoption of the new Gas Directive almost 80% of the total EU market was formally opened to competition.

Russia is the largest exporter of natural gas to western Europe, followed by Norway, The Netherlands and Algeria. EU projections show that in order to meet demand for natural gas and to compensate for the decline in the production of natural gas within the EU, there will be an increasing dependence upon imports from outside the EU. The electricity industry and other sectors of the economy are increasingly using natural gas because of its favorable ecological characteristics, which has increased demand.

As a result of the liberalization of the EU's natural gas market, short-term contracts and single transactions involving natural gas have become more popular. In time, this may have a significant effect on the state of the market. The long-term "take-or-pay" contracts, under which most of Europe's natural gas is supplied by Gazprom and other traditional exporters, however, provide for secure and stable natural gas supplies while at the same time balancing the interests of both exporters and importers. Such contracts are also the main element of major natural gas export financing projects, which provide producers with capital needed for investment in gas field exploration and development and transportation infrastructure. These long-term contracts also ensure that actual gas importers also have access to the required quantities of natural gas over long periods at time. As a result of anticipated import demand for natural gas in the European countries and the liberalized market conditions long-term contracts are likely to be of continued importance.

GLOSSARY OF SELECTED TERMS

“bcm”	Billion cubic meters, as measured under one atmosphere of pressure at 20°C
“Blue Stream Project”	The construction and operation by Gazprom, in alliance with key Italian natural gas purchaser and distributor ENI, of a new natural gas trunk pipeline from Russia via the Black Sea to Turkey
“Board of Directors”	Gazprom’s board of directors consisting of 11 members and appointed pursuant to the Joint Stock Companies Law and the Charter
“bcf”	Billion cubic feet
“boe”	Barrel of oil equivalent
“central and eastern Europe”	For the purposes of this Offering Circular: Bosnia, Bulgaria, Croatia, Czech Republic, former Yugoslav Republic of Macedonia (“FYROM”), Hungary, Poland, Romania, Serbia and Montenegro, Slovakia and Slovenia
“Central Bank”	Central Bank of the Russian Federation
“Charter”	Gazprom’s Charter of May 31, 1996, as amended
“Constitution”	The constitution of the Russian Federation adopted on December 12, 1993
“EBRD”	European Bank for Reconstruction and Development
“Energy Charter Treaty”	Treaty between European states, the main objective of which is to assist in the development of the European energy market
“EU”	European Union
“Europe”	For the purposes of this Offering Circular, central and eastern Europe and western Europe
“FEC”	Federal Energy Commission of the Russian Federation, established pursuant to Government Decree No. 960 dated August 13, 1996 and which was responsible, inter alia, for regulating domestic gas prices, transportation tariffs and natural resources monopoly activities prior to the effective date of Decree No. 314 and the functions of which have since been transferred to the Federal Service for Tariffs
“FSU”	Excluding Russia, the countries which formerly comprised the Soviet Union: Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan
“FTS”	Federal Tariffs Service of the Russian Federation, established pursuant to Decree No. 314 dated March 9, 2004 as the successor to, inter alia, the domestic gas price and transport tariff regulation functions of the FEC
“Gas Directive”	A directive adopted by the European Parliament and the Council, which came into force in August 1998 and replaced by a new Gas Directive in June 2003, with the purpose of establishing common rules for the organization and functioning of the European natural gas market
“General Meeting of Shareholders”	Gazprom’s highest authority in accordance with its Charter, with exclusive power over various aspects of Gazprom’s management

“IFRS”	International Financial Reporting Standards, including International Accounting Standards (“IAS”) and Interpretations issued by the International Accounting Standards Board
“International Energy Agency”	A forum with 26 member countries that serves as a forum in which to share energy information, coordinate energy policies and to cooperate in the development of energy programs, and is an authoritative source for energy statistics worldwide
“kW”	Kilowatts
“LNG”	Liquified Natural Gas
“Management Committee”	An executive body of Gazprom, which along with the Management Committee Chairman, manages Gazprom’s day-to-day affairs and implements the strategic plans of the Board of Directors
“mcf”	Million cubic feet
“mcm”	Thousand cubic meters, as measured under one atmosphere of pressure at 20°C
“mtoe”	Million metric tons of oil equivalent
“mmbbls”	Millions of barrels
“mmboe”	Million barrels of oil equivalent
“mmcm”	Million cubic meters, as measured under one atmosphere of pressure
“SPE International Standards”	Classifications and methodologies developed by the Society of Petroleum Engineers and approved by the Joint Reserves Evaluation Committee, for estimating hydrocarbon reserves
“State Duma”	Lower chamber of the Russian parliament
“tcf”	Trillion cubic feet
“tcm”	Trillion cubic meters, as measured under one atmosphere of pressure at 20°C
“toe”	Metric ton of oil equivalent
“ton”	One metric ton
“UGSS”	Unified Gas Supply System
“U.K.”	United Kingdom
“US” or “U.S.”	United States of America
“western Europe”	For the purpose of this Offering Circular: Andorra, Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Iceland, Republic of Ireland, Italy, Liechtenstein, Luxembourg, Malta, Monaco, The Netherlands, Norway, Portugal, San Marino, Spain, Sweden Switzerland, Turkey and the United Kingdom

CONVERSION TABLE

metric measure	U.S. measure
1 bcm	35,316,000,000 cubic feet
1 tcm	35,316,000,000,000 cubic feet
1 ton	1,000 kilos, 2,204.6 pounds, 7.33 barrels
1 kilometer	approximately 0.62 miles
1 metric ton of oil equivalent	25.2 quadrillion btus (British Thermal Unit), approximately 1,125 cubic meters of natural gas
1 barrel of gas condensate	1 barrel of oil equivalent (boe)
1 cubic meter of natural gas	5.8858 barrels of oil equivalent (boe)

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OA O GAZPROM
IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2003 AND 2002

AUDITORS' REPORT

To the Shareholders of OAO Gazprom

1. We have audited the accompanying consolidated balance sheets of OAO Gazprom and its subsidiaries (the "Group") as of 31 December 2003 and 2002, and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.
2. We conducted our audits 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 audits provide 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 2003 and 2002, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.
4. Without qualifying our opinion, we draw your attention to Note 30 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.

Moscow, Russian Federation
30 June 2004

ОАО ГАЗПРОМ
IFRS CONSOLIDATED BALANCE SHEET
(In millions of Russian Roubles)

		31 December		
	<i>Notes</i>	2003	2002	2001
Assets				
Current assets				
Cash and cash equivalents.....	6	71,396	58,354	51,713
Restricted cash.....	6	33,743	39,581	46,220
Short-term investments	7	57,069	28,895	31,366
Accounts receivable and prepayments	8	234,929	192,042	257,771
Inventories	9	111,330	88,561	85,465
VAT recoverable	4	85,909	73,596	77,437
Other current assets		6,086	4,130	10,905
		<u>600,462</u>	<u>485,159</u>	<u>560,877</u>
Non-current assets				
Property, plant and equipment	10	1,973,781	1,855,276	1,783,004
Investments in associated undertakings.....	5, 11, 30	79,346	84,875	90,085
Long-term accounts receivable and prepayments	12	70,956	72,666	51,316
Deferred tax assets	18	—	—	15,881
Other non-current assets	13	39,542	41,886	35,027
		<u>2,163,625</u>	<u>2,054,703</u>	<u>1,975,313</u>
Total assets.....	5	<u>2,764,087</u>	<u>2,539,862</u>	<u>2,536,190</u>
Liabilities and equity				
Current liabilities				
Accounts payable and accrued charges.....	14	124,273	95,840	123,557
Taxes payable.....	15	103,799	106,891	128,787
Short-term borrowings and current portion of long-term borrowings	16	170,622	184,823	193,090
Short-term promissory notes payable	4	27,433	41,384	70,402
		<u>426,127</u>	<u>428,938</u>	<u>515,836</u>
Non-current liabilities				
Long-term borrowings	17	303,755	248,603	237,413
Long-term promissory notes payable.....	4	13,715	20,218	14,259
Restructured tax liabilities.....	15	6,111	10,592	21,957
Provisions for liabilities and charges	20	34,880	21,989	20,047
Deferred tax liabilities	18	96,823	63,019	—
Other non-current liabilities		12,753	24,454	5,578
		<u>468,037</u>	<u>388,875</u>	<u>299,254</u>
Total liabilities.....	5	894,164	817,813	815,090
Minority interest	29	14,793	10,177	17,387
Shareholders' equity				
Share capital.....	21	325,194	325,194	325,194
Treasury shares	21	(33,889)	(30,367)	(20,872)
Retained earnings and other reserves	21	<u>1,563,825</u>	<u>1,417,045</u>	<u>1,399,391</u>
Total shareholders' equity		<u>1,855,130</u>	<u>1,711,872</u>	<u>1,703,713</u>
Total liabilities and equity.....		<u>2,764,087</u>	<u>2,539,862</u>	<u>2,536,190</u>

A.B. Miller
Chairman of the Management Committee
30 June 2004

E.A. Vasilieva
Chief Accountant
30 June 2004

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

ОАО ГАЗПРОМ
IFRS CONSOLIDATED STATEMENT OF INCOME
(In millions of Russian Roubles)

	<i>Notes</i>	Year ended 31 December		
		2003	2002	2001
Sales.....	5, 22	819,753	644,687	712,967
Operating expenses.....	5, 23	(593,415)	(496,713)	(506,843)
Operating profit.....	5	226,338	147,974	206,124
Exchange gains		55,564	23,553	27,967
Exchange losses.....		(40,424)	(32,988)	(33,373)
Interest income		15,295	10,636	14,184
Interest expense.....	16, 17	(32,301)	(29,265)	(42,902)
Monetary gain	3	—	31,380	33,513
Gains on and extinguishment of restructured liabilities	15, 24	4,007	13,908	23,122
Net monetary effects and financing items.....		2,141	17,224	22,511
Share of net income of associated undertakings	11	3,478	4,285	4,087
Gains (losses) on available-for-sale investments	19	5,017	(3,729)	(993)
Profit before profit tax and minority interest.....		236,974	165,754	231,729
Current profit tax expense.....	18	(42,368)	(54,187)	(94,957)
Deferred profit tax expense.....	18	(32,449)	(81,945)	(118,234)
Profit tax expense	18	(74,817)	(136,132)	(213,191)
Profit before minority interest		162,157	29,622	18,538
Minority interest	29	(3,062)	(667)	(5,339)
Net profit		159,095	28,955	13,199
Basic and diluted earnings per share (in Roubles)	26	8.02	1.39	0.63

A.B. Miller
Chairman of the Management Committee
30 June 2004

E.A. Vasilieva
Chief Accountant
30 June 2004

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

ОАО ГАЗПРОМ
IFRS CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions of Russian Roubles)

	<i>Notes</i>	Year ended 31 December		
		2003	2002	2001
Operating activities				
Net cash provided by operating activities	27	<u>141,846</u>	<u>160,111</u>	<u>163,544</u>
Investing activities				
Capital expenditures.....		(144,370)	(141,124)	(108,453)
Net change in loans made.....		75	(5,470)	933
Interest received.....		13,177	10,002	12,428
Interest paid and capitalised.....	10	(13,807)	(12,998)	(16,711)
Cash in subsidiaries acquired (disposed of).....		131	(4,058)	1,198
Acquisition of subsidiaries.....		(802)	(6,159)	(862)
Change in investments in associated undertakings....		5,360	7,917	1,378
Change in other long-term investments.....		(4,927)	(8,798)	(7,514)
Net cash used for investing activities		<u>(145,163)</u>	<u>(160,688)</u>	<u>(117,603)</u>
Financing activities				
Proceeds from long-term borrowings (including current portion).....	17	144,387	115,570	101,574
Repayment of long-term borrowings (including current portion).....	17	(75,005)	(80,999)	(49,126)
Sale of promissory notes.....		—	17,162	52,155
Redemption of promissory notes.....		(7,751)	(17,615)	(78,254)
Net (redemption of) proceeds from issuance of bonds.....	17	(4,772)	4,735	(119)
Net (repayment of) proceeds from short-term borrowings.....	16	(13,551)	2,950	(801)
Dividends paid.....	21	(8,479)	(10,328)	(6,736)
Interest paid.....		(19,204)	(22,379)	(27,389)
Purchases of treasury shares.....	21	(72,122)	(45,490)	(54,342)
Sales of treasury shares.....	21	68,214	38,784	49,829
Change in cash restricted for borrowings.....	6	5,838	627	4,133
Net cash provided by (used for) financing activities ...		<u>17,555</u>	<u>3,017</u>	<u>(9,076)</u>
Effect of exchange rate changes on cash and cash equivalents.....		(1,196)	8,099	3,638
Effect of inflation accounting on cash and cash equivalents.....		—	(3,898)	(2,744)
Increase in cash and cash equivalents		13,042	6,641	37,759
Cash and cash equivalents, at the beginning of reporting period.....		<u>58,354</u>	<u>51,713</u>	<u>13,954</u>
Cash and cash equivalents, at the end of reporting period		<u>71,396</u>	<u>58,354</u>	<u>51,713</u>

A.B. Miller
Chairman of the Management Committee
30 June 2004

E.A. Vasilieva
Chief Accountant
30 June 2004

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

ОАО ГАЗПРОМ
IFRS CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(In millions of Russian Roubles)

	<i>Notes</i>	Number of shares outstanding (billions)	Share capital	Treasury shares	Retained earnings and other reserves	Total shareholders' equity
Balance as of 31 December 2000.....		21.0	325,194	(13,214)	1,396,647	1,708,627
Net income		—	—	—	13,199	13,199
Net treasury share transactions	21	(0.0)	—	(7,658)	3,144	(4,514)
Translation differences.....	21	—	—	—	(1,532)	(1,532)
Return of social assets to governmental authorities.....	21	—	—	—	(5,360)	(5,360)
Dividends.....	21	—	—	—	(6,707)	(6,707)
Balance as of 31 December 2001.....		<u>21.0</u>	<u>325,194</u>	<u>(20,872)</u>	<u>1,399,391</u>	<u>1,703,713</u>
Net income		—	—	—	28,955	28,955
Net treasury share transactions	21	(1.2)	—	(9,495)	(1,425)	(10,920)
Translation differences.....	21	—	—	—	2,052	2,052
Return of social assets to governmental authorities.....	21	—	—	—	(2,133)	(2,133)
Dividends.....	21	—	—	—	(9,795)	(9,795)
Balance as of 31 December 2002.....		<u>19.8</u>	<u>325,194</u>	<u>(30,367)</u>	<u>1,417,045</u>	<u>1,711,872</u>
Net income		—	—	—	159,095	159,095
Net treasury share transactions	21	(0.0)	—	(3,522)	(347)	(3,869)
Translation differences.....	21	—	—	—	1,101	1,101
Return of social assets to governmental authorities.....	21	—	—	—	(4,610)	(4,610)
Dividends.....	21	—	—	—	(8,459)	(8,459)
Balance as of 31 December 2003.....		<u>19.8</u>	<u>325,194</u>	<u>(33,889)</u>	<u>1,563,825</u>	<u>1,855,130</u>

A.B. Miller
Chairman of the Management
Committee
30 June 2004

E.A. Vasilieva
Chief Accountant
30 June 2004

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

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
(In millions of Russian Roubles)

1 NATURE OF OPERATIONS

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

The Group 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.

The weighted average number of full time employees during 2003, 2002 and 2001 was 391 thousand, 323 thousand and 304 thousand, respectively.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

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

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 Regulation on Accounting and Reporting of the Russian Federation (“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.

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 RR in accordance with IAS 29 (“Financial Reporting in Hyperinflationary Economies”). 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. As the characteristics of the economic environment of the Russian Federation indicate

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In millions of Russian Roubles)

3 BASIS OF PRESENTATION—(continued)

that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, no adjustments for the effects of changes in general purchasing power have been made for the year ended 31 December 2003.

Corresponding figures, for the years ended 31 December 2002 and 2001, were restated for the changes in the general purchasing power of the RR as of 31 December 2002. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index (“CPI”), published by the Russian State Committee on Statistics (“Goscomstat”), and from indices obtained from other sources for years prior to 1992. The indices used to restate corresponding figures, based on 1988 prices (1988=100) for the five years ended 31 December 2002, and the respective conversion factors, are:

<u>Year</u>	<u>Index</u>	<u>Conversion Factor</u>
1998	1,216,400	2.24
1999	1,661,481	1.64
2000	1,995,937	1.37
2001	2,371,572	1.15
2002	2,730,154	1.00

The main guidelines followed in restating the corresponding figures were:

- All corresponding amounts were stated in terms of the measuring unit current as of 31 December 2002;
- Monetary assets and liabilities held as of 31 December 2002 were not restated because they were already expressed in terms of the monetary unit current as of 31 December 2002;
- 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;
- All items in the statement of operations and cash flows were restated by applying the change in the general price index from the dates when the items were initially transacted to 31 December 2002;
- Gains or losses that arose as a result of holding monetary assets and liabilities for the reporting periods ended 31 December 2002 and 2001 were included in the statement of operations as a monetary gain or loss.

The consolidated statement of income includes net monetary gains of RR 31,380 and RR 33,513 for the years ended 31 December 2002 and 2001, respectively, because on average the Group had net monetary liabilities in those years.

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 2002 and 2001 have been increased by RR 22,930 and RR 19,566, respectively, as a result of a reclassification of South Pars from other long-term investments, which are now included within other non-current assets (see Note 12). Current assets and liabilities as of 31 December 2002 and 2001 have been increased by RR 59,163 and RR 65,417, respectively, in order to present deferred VAT on a gross rather than a net basis (see Note 4.7).

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In millions of Russian Roubles)

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.

Minority interest at the balance sheet date represents the minority shareholders' portion of the pre-acquisition carrying amount of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the minorities' portion of movements in equity since the date of the combination. 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 classified 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 2003, 2002 and 2001. 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.

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In millions of Russian Roubles)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—(continued)

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.

Prior to the adoption of IAS 39 the Group had valued its marketable equity securities at the lower of cost restated to the equivalent purchasing power of the Rouble at the reporting date on the basis of indices included in Note 3, or market value. Long-term investments were reflected at cost restated to the equivalent purchasing power at the reporting date. Provision for impairment was only made where, in the opinion of the Group's management, there was a diminution in value, which was other than temporary. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount was charged or credited to the consolidated statement of operations.

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 investments are classified as operating activities.

4.3 Goodwill

Any excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary or associated undertaking at the date of acquisition is recorded as goodwill. Goodwill on acquisition of subsidiary undertakings is included in other non-current assets. Goodwill on acquisition of associated undertakings is included in investments in associated undertakings. Goodwill is amortised using the straight-line method over the shorter of its estimated useful life or 20 years.

4.4 Joint ventures

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

4.5 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.

4.6 Accounts receivable

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

ОАО ГАЗПРОМ

NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In millions of Russian Roubles)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—(continued)

or if collection is not anticipated for a long period of time. 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.

4.7 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.

4.8 Inventories

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

4.9 Property, plant and equipment

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

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

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

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 charge to shareholders' equity.

Depreciation is calculated on a straight-line basis. Depreciation on wells and production equipment 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. Assets under construction are not depreciated.

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In millions of Russian Roubles)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—(continued)

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

	<u>Years</u>
Pipelines	33
Wells and production equipment	12-40
Machinery and equipment	10-18
Buildings	30-40
Roads	20-40
Social assets	10-40

4.10 Impairment of assets

At each balance sheet date management assess whether there is any indication that the recoverable value of the Group's assets has declined below the carrying value. When such a decline is identified, the carrying amount is reduced to the 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.

4.11 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.

4.12 Deferred tax

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

Deferred income tax is provided on 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.

4.13 Foreign currency transactions

Monetary assets and liabilities held by the Group as of 31 December 2003, 2002 and 2001, 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.

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In millions of Russian Roubles)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—(continued)

The official US dollar to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 29.45, 31.78 and 30.14 as of 31 December 2003, 2002 and 2001, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 36.82, 33.11 and 26.49 as of 31 December 2003, 2002 and 2001, respectively.

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

4.14 Provisions for liabilities and charges

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

4.15 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 at the balance sheet date only if they are declared before or on the balance sheet date.

4.16 Revenue recognition

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

Natural gas prices and gas transportation tariffs in the Russian Federation are established by the Federal Energy Commission. Export gas prices for sales to European countries are indexed mainly to oil product 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.

4.17 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.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—(continued)

Approximately, 17%, 18% and 18% of accounts receivable settled during the years ended 31 December 2003, 2002 and 2001, 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 5.3% to 15.1%, from 12.0% to 25.0% and from 12.0% to 28.0% for the years ended 31 December 2003, 2002 and 2001, respectively. The Group's long-term promissory notes payable had average interest rates ranging from 6.3% to 16.3%, from 15.0% to 26.0% and from 22.0% to 26.5% for the years ended 31 December 2003, 2002 and 2001, 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.

4.18 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.

4.19 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 if the asset recognition criteria are subsequently met.

4.20 Employee benefits

Pension and other post-retirement benefits

The Group operates a defined benefit plan. Pension costs are recognised using the projected unit credit method. The cost of providing pensions is charged to operating expenses within 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 ОАО Газпром. The parent/subsidiary relationship between the Group and NPF Gazfund means that the assets held by NPF Gazfund do not meet the definition of plan assets and are, therefore, recognized in the consolidated balance sheet as treasury shares or other investments, as appropriate.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—(continued)

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

Social expenses

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

4.21 Financial instruments

The Group adopted IAS 39 “Financial Instruments: Recognition and Measurement” as of 1 January 2001. The financial effects of adopting IAS 39 are disclosed in Note 19.

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 estimated 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 estimated 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 estimated based on current market value at the close of business on the reporting date.

4.22 Recent accounting pronouncements

During the period December 2003 to March 2004, the IASB revised 17 of its standards and issued 4 new standards. These standards are effective for accounting periods commencing on or after 1 January 2005 but may be adopted early. The Group has not early adopted these revised and new standards in preparing these consolidated financial statements.

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;

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5 SEGMENT INFORMATION—(continued)

- Transportation—transportation of gas;
- Distribution—domestic and export sale of gas; and
- Other—other activities, including banking.

	<u>Production</u>	<u>Refining</u>	<u>Transport</u>	<u>Distribution</u>	<u>Other</u>	<u>Total</u>
31 December 2003						
Segment assets	657,779	71,707	1,246,597	181,494	315,933	2,473,510
Associated undertakings	1,289	1,311	58,018	9,233	9,495	79,346
Unallocated assets						306,066
Inter-segment eliminations						(94,835)
Total assets						<u>2,764,087</u>
Segment liabilities	32,855	26,539	61,536	80,907	28,379	230,216
Unallocated liabilities						758,783
Inter-segment eliminations						(94,835)
Total liabilities						<u>894,164</u>
Capital additions for the period	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	7,994	9,327	(4,167)	2,842	9,617	25,613
Unallocated impairment provisions and other provisions						3,213
Total impairment provisions and other provisions						<u>28,826</u>
31 December 2002						
Segment assets	600,171	47,439	1,228,742	141,798	259,006	2,277,156
Associated undertakings	—	5,607	61,508	8,333	9,427	84,875
Unallocated assets						296,613
Inter-segment eliminations						(118,782)
Total assets						<u>2,539,862</u>
Segment liabilities	25,201	14,880	49,169	112,033	32,134	233,417
Unallocated liabilities						703,178
Inter-segment eliminations						(118,782)
Total liabilities						<u>817,813</u>
Capital additions for the period	78,248	9,832	78,607	2,638	8,831	178,156
Depreciation	28,436	2,553	57,624	567	4,274	93,454
Impairment provisions and other provisions	<u>2,676</u>	<u>8,009</u>	<u>15</u>	<u>1,476</u>	<u>1,732</u>	<u>13,908</u>
31 December 2001						
Segment assets	536,126	42,876	1,240,431	203,773	237,431	2,260,637
Associated undertakings	—	2,098	66,947	10,555	10,485	90,085
Unallocated assets						308,512
Inter-segment eliminations						(123,044)
Total assets						<u>2,536,190</u>

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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5 SEGMENT INFORMATION—(continued)

	<u>Production</u>	<u>Refining</u>	<u>Transport</u>	<u>Distribution</u>	<u>Other</u>	<u>Total</u>
Segment liabilities	19,982	22,808	25,254	139,184	47,506	254,734
Unallocated liabilities						683,400
Inter-segment eliminations						(123,044)
Total liabilities						<u>815,090</u>
Capital additions for the period	70,898	6,169	77,295	111	17,568	172,041
Depreciation	30,023	2,693	62,533	152	4,467	99,868
Impairment provisions and other provisions	<u>5,076</u>	<u>4,874</u>	<u>11,091</u>	<u>19,214</u>	<u>828</u>	<u>41,083</u>

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 additions include acquisition of subsidiaries. Charges for impairment provision and other provisions above include impairment provisions for accounts receivable, assets under construction, inventory and other long-term assets and provisions for liabilities and charges.

	<u>Production</u>	<u>Refining</u>	<u>Transport</u>	<u>Distribution</u>	<u>Other</u>	<u>Total</u>
Year ended 31 December 2003						
Segment revenues						
Inter-segment sales	100,888	17,859	224,459	25,207	4,516	372,929
External sales	<u>4,352</u>	<u>92,180</u>	<u>28,226</u>	<u>648,663</u>	<u>46,332</u>	<u>819,753</u>
Total segment revenues	105,240	110,039	252,685	673,870	50,848	1,192,682
Segment expenses						
Inter-segment expenses	(2,965)	(17,602)	(32,157)	(320,205)	—	(372,929)
External expenses	<u>(94,509)</u>	<u>(85,318)</u>	<u>(187,638)</u>	<u>(160,909)</u>	<u>(53,355)</u>	<u>(581,729)</u>
Total segment expenses	<u>(97,474)</u>	<u>(102,920)</u>	<u>(219,795)</u>	<u>(481,114)</u>	<u>(53,355)</u>	<u>(954,658)</u>
Segment result	7,766	7,119	32,890	192,756	(2,507)	238,024
Unallocated operating expenses						(11,686)
Operating profit						226,338
Share of net income (losses) of associated undertakings	<u>339</u>	<u>—</u>	<u>1,983</u>	<u>1,505</u>	<u>(349)</u>	<u>3,478</u>

Year ended 31 December 2002

Segment revenues						
Inter-segment sales	112,927	16,974	197,628	18,057	—	345,586
External sales	<u>2,601</u>	<u>56,647</u>	<u>18,028</u>	<u>526,437</u>	<u>40,974</u>	<u>644,687</u>
Total segment revenues	115,528	73,621	215,656	544,494	40,974	990,273
Segment expenses						
Inter-segment expenses	(1,626)	(15,330)	(20,754)	(307,876)	—	(345,586)
External expenses	<u>(86,783)</u>	<u>(55,231)</u>	<u>(157,377)</u>	<u>(141,241)</u>	<u>(47,360)</u>	<u>(487,992)</u>
Total segment expenses	<u>(88,409)</u>	<u>(70,561)</u>	<u>(178,131)</u>	<u>(449,117)</u>	<u>(47,360)</u>	<u>(833,578)</u>
Segment result	27,119	3,060	37,525	95,377	(6,386)	156,695
Unallocated operating expenses						(8,721)
Operating profit						147,974
Share of net (losses) income of associated undertakings	<u>—</u>	<u>(1,529)</u>	<u>2,533</u>	<u>2,076</u>	<u>1,205</u>	<u>4,285</u>

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5 SEGMENT INFORMATION—(continued)

	<u>Production</u>	<u>Refining</u>	<u>Transport</u>	<u>Distribution</u>	<u>Other</u>	<u>Total</u>
Year ended 31 December 2001						
Segment revenues						
Inter-segment sales	84,084	15,504	204,138	13,952	—	317,678
External sales	2,008	74,640	18,226	584,834	33,259	712,967
Total segment revenues	86,092	90,144	222,364	598,786	33,259	1,030,645
Segment expenses						
Inter-segment expenses	(2,257)	(13,732)	(18,705)	(282,984)	—	(317,678)
External expenses	(57,146)	(75,480)	(168,950)	(176,343)	(22,892)	(500,811)
Total segment expenses	(59,403)	(89,212)	(187,655)	(459,327)	(22,892)	(818,489)
Segment result	26,689	932	34,709	139,459	10,367	212,156
Unallocated operating expenses						(6,032)
Operating profit						206,124
Share of net income of associated undertakings	—	—	465	3,091	531	4,087

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 24,330, RR 32,625 and RR 39,450 as of 31 December 2003, 2002 and 2001, respectively, which are restricted as to withdrawal under the terms of certain borrowings. In addition, restricted cash comprises cash balances of RR 9,413, RR 6,956 and RR 6,770 as of 31 December 2003, 2002 and 2001, respectively, in subsidiary banks, which are restricted as to withdrawal under banking regulations.

7 SHORT-TERM INVESTMENTS

	31 December		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Trading investments	33,956	14,143	15,182
Available-for-sale investments	23,113	14,752	16,184
	<u>57,069</u>	<u>28,895</u>	<u>31,366</u>

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

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7 SHORT-TERM INVESTMENTS—(continued)

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

During the year ended 31 December 2002, RR 6,205 of short-term investments of ОАО АKB National Reserve Bank were deconsolidated (see Note 28).

8 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December		
	2003	2002	2001
Trade receivables (net of impairment provision of RR 94,404, RR 94,541 and RR 109,341 as of 31 December 2003, 2002 and 2001, respectively)	117,868	113,990	153,997
Prepayments and advances (net of impairment provision of RR 5,110, RR 7,206 and RR 12,682 as of 31 December 2003, 2002 and 2001, respectively)	47,953	34,026	42,183
Other receivables (net of impairment provision of RR 31,087, RR 25,459 and RR 28,124 as of 31 December 2003, 2002 and 2001, respectively)	69,108	44,026	61,591
	<u>234,929</u>	<u>192,042</u>	<u>257,771</u>

The estimated fair value of accounts receivable, excluding prepayments and advances, is RR 178,211, RR 148,399 and RR 165,425 as of 31 December 2003, 2002 and 2001, respectively.

RR 62,079, RR 62,173 and RR 81,846 of trade receivables, net of impairment provision, are denominated in foreign currencies, mainly US dollar and Euro, as of 31 December 2003, 2002 and 2001, respectively.

As of 31 December 2003, 2002 and 2001, other receivables include RR 47,918, RR 24,843 and RR 40,786, respectively, relating to the operations of AB Gazprombank (ZAO) and ОАО АKB National Reserve Bank (ОАО АKB National Reserve Bank was included only at 31 December 2001—see Note 28). 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 2003 the average year-end interest rate on banking deposits and loans ranged from 3.6% to 15.3% on balances denominated in Russian Roubles and from 1.5% to 7.7% on balances denominated in foreign currencies. As of 31 December 2002 the average year-end interest rate on banking deposits and loans ranged from 9.2% to 21.4% on balances denominated in Russian Roubles and from 2.0% to 13.0% on balances denominated in foreign currencies. As of 31 December 2001 the average year-end interest rate on banking deposits and loans ranged from 12.6% to 21.2% on balances denominated in Russian Roubles and from 2.3% to 15.0% on balances denominated in foreign currencies.

As of 31 December 2003, 2002 and 2001, AB Gazprombank (ZAO) had pledged deposits with banks and other financial institutions of RR 2,792, RR 7,736 and RR 8,570, respectively. These are pledged as collateral for borrowings received by ОАО Газпром and credit exposures of Altalanos Ertekforgalmi Bank Rt (“AEB”) (see Note 30).

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

As of 31 December 2002 other receivables included US dollar denominated loans of RR 7,303 issued by the Group’s subsidiaries Gazprom Finance BV and AB Gazprombank (ZAO) to ООО Lotsman. The loans were due to be repaid in March 2003 and bear interest of 5% and 12.5% per annum, respectively. In March 2003 ООО Lotsman repaid in cash the amounts due under loans issued by the Group’s subsidiaries in 2002. As of 31 December 2001 there were no loans outstanding to ООО Lotsman.

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9 INVENTORIES

	31 December		
	2003	2002	2001
Gas	55,483	45,826	37,812
Materials and supplies (net of an obsolescence provision of RR 8,687, RR 11,792 and RR 15,303 as of 31 December 2003, 2002 and 2001, respectively).....	41,653	35,724	37,086
Goods for resale (net of an obsolescence provision of RR 74, RR 1,195 and RR 883 as of 31 December 2003, 2002 and 2001, respectively)	8,451	4,061	6,722
Refined products.....	<u>5,743</u>	<u>2,950</u>	<u>3,845</u>
	<u>111,330</u>	<u>88,561</u>	<u>85,465</u>

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

10 PROPERTY, PLANT AND EQUIPMENT

	Pipelines	Wells and production equipment	Machinery and equipment	Buildings and roads	Total operating assets	Social assets	Assets under construction	Total
As of 31.12.00								
Cost	1,192,556	387,802	506,171	614,642	2,701,171	134,384	281,996	3,117,551
Accumulated depreciation ...	(551,258)	(192,377)	(307,558)	(286,782)	(1,337,975)	(26,942)	—	(1,364,917)
Net book value at 31.12.00	641,298	195,425	198,613	327,860	1,363,196	107,442	281,996	1,752,634
Depreciation.....	(35,884)	(12,163)	(28,339)	(22,422)	(98,808)	(3,766)	—	(102,574)
Additions	14,457	12	186	159	14,814	309	155,809	170,932
Acquisition of subsidiaries ...	—	—	391	385	776	—	333	1,109
Transfers.....	69,325	39,597	52,534	83,818	245,274	1,235	(246,509)	—
Disposals.....	(52)	(340)	(5,123)	(9,735)	(15,250)	(7,372)	(9,972)	(32,594)
Impairment provision.....	—	—	—	—	—	—	(6,503)	(6,503)
Net book value at 31.12.01	689,144	222,531	218,262	380,065	1,510,002	97,848	175,154	1,783,004
As of 31.12.01								
Cost	1,276,273	426,358	552,690	688,092	2,943,413	128,108	175,154	3,246,675
Accumulated depreciation ...	(587,129)	(203,827)	(334,428)	(308,027)	(1,433,411)	(30,260)	—	(1,463,671)
Net book value at 31.12.01	689,144	222,531	218,262	380,065	1,510,002	97,848	175,154	1,783,004
Depreciation.....	(36,719)	(12,606)	(21,891)	(23,663)	(94,879)	(3,719)	—	(98,598)
Additions	—	107	233	1,203	1,543	6	165,812	167,361
Acquisition of subsidiaries ...	613	1,743	2,025	3,172	7,553	100	3,142	10,795
Transfers.....	49,112	25,130	38,922	29,861	143,025	755	(143,780)	—
Disposals.....	(662)	(440)	(2,537)	(2,598)	(6,237)	(2,887)	(5,045)	(14,169)
Release of prior impairment provision	—	—	—	—	—	—	6,883	6,883
Net book value at 31.12.02	701,488	236,465	235,014	388,040	1,561,007	92,103	202,166	1,855,276
As of 31.12.02								
Cost	1,325,336	453,275	592,524	721,457	3,092,592	124,654	202,166	3,419,412
Accumulated depreciation ...	(623,848)	(216,810)	(357,510)	(333,417)	(1,531,585)	(32,551)	—	(1,564,136)
Net book value at 31.12.02	701,488	236,465	235,014	388,040	1,561,007	92,103	202,166	1,855,276
Depreciation.....	(36,809)	(12,967)	(22,631)	(24,361)	(96,768)	(3,449)	—	(100,217)
Additions	186	174	700	570	1,630	134	212,195	213,959

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10 PROPERTY, PLANT AND EQUIPMENT—(continued)

	Pipelines	Wells and production equipment	Machinery and equipment	Buildings and roads	Total operating assets	Social assets	Assets under construction	Total
Acquisition of subsidiaries . . .	760	1,460	5,629	6,975	14,824	712	2,289	17,825
Transfers	65,496	36,444	48,256	51,640	201,836	4,116	(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	729,870	261,034	263,484	421,038	1,675,426	87,892	210,463	1,973,781
As of 31.12.03								
Cost	1,390,150	490,790	639,848	776,682	3,297,470	122,272	210,463	3,630,205
Accumulated depreciation . . .	(660,280)	(229,756)	(376,364)	(355,644)	(1,622,044)	(34,380)	—	(1,656,424)
Net book value at								
31.12.03	729,870	261,034	263,484	421,038	1,675,426	87,892	210,463	1,973,781

At each balance sheet date management assesses whether there is any indication that the recoverable value has declined below the carrying value of the property, plant and equipment. As a result of management's assessment of the recoverable amount, assets under construction are presented net of a provision for impairment of RR 91,481, RR 95,570 and RR 102,453 at 31 December 2003, 2002 and 2001, respectively. The provision for impairment of assets under construction primarily relates to projects that have been indefinitely suspended and currently excluded from the Group's investment program.

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

Included in additions above is capitalized interest of RR 13,807, RR 13,012 and RR 18,857 for the years ended 31 December 2003, 2002 and 2001, respectively. Capitalization rates of 6.8%, 7.2% and 7.3% were used representing the weighted average actual borrowing cost of the relevant borrowings for the years ended 31 December 2003, 2002 and 2001, respectively.

Included in the property, plant and equipment above are fully depreciated assets which are still in service with the gross cost of RR 687,364, RR 637,970 and RR 589,436 as of 31 December 2003, 2002 and 2001, respectively. Included in additions are non-cash additions of RR 42,469, RR 42,639 and RR 49,133 for the years ended 31 December 2003, 2002 and 2001, respectively.

Depreciation includes RR 610, RR 746 and RR 657 for the years ended 31 December 2003, 2002 and 2001, respectively, which is considered a cost of self-constructed assets and thus capitalized rather than expensed in the consolidated statement of income. RR 19,304, RR 19,979 and RR 14,751 of depreciation for the years ended 31 December 2003, 2002 and 2001, 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 35,047, RR 40,526 and RR 44,487 as of 31 December 2003, 2002 and 2001, 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 2019, however they may be extended. Management expects to extend the existing licenses on properties expected to produce hydrocarbons subsequent to their current expiration dates. Because of the expected renewals, the assets are depreciated over their useful lives even if this is beyond the end of the current license.

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In millions of Russian Roubles)

11 INVESTMENTS IN ASSOCIATED UNDERTAKINGS

	<i>Notes</i>	31 December		
		2003	2002	2001
EuRoPol GAZ S.A.	30	35,377	38,502	43,756
WINGAS GmbH	30	20,069	21,360	19,554
AEB	30	4,290	3,996	3,663
ОАО Стройтрансгаз	30	3,488	—	—
ЗАО Армросгазпром	30	3,170	3,276	3,878
Other (net of provision for impairment of RR 8,831, RR 8,789 and RR 8,526 as of 31 December 2003, 2002 and 2001, respectively)		<u>12,952</u>	<u>17,741</u>	<u>19,234</u>
		<u>79,346</u>	<u>84,875</u>	<u>90,085</u>
		31 December		
		2003	2002	2001
Balance at the beginning of the reporting period		84,875	90,085	86,307
Share of income before tax		5,763	6,327	5,348
Share of profit tax expense		(2,285)	(2,042)	(1,261)
Share of net income		3,478	4,285	4,087
Reduction in loans and other receivables		(5,129)	(7,113)	(9,033)
Dividends received from associated undertakings		(1,133)	(1,189)	(824)
Translation differences		(111)	(190)	(794)
Net (disposals) acquisitions		(2,634)	(1,003)	10,342
Balance at the end of the reporting period		<u>79,346</u>	<u>84,875</u>	<u>90,085</u>

Principal associated undertakings

Associated undertaking	Country	Nature of operations	% of ordinary shares held 31 December		
			2003	2002	2001
ЗАО Agrochemical Corporation Azot	Russia	Sale of agricultural chemicals	47	46	46
ЗАО Армросгазпром	Armenia	Gas transportation and distribution	45	45	45
WINGAS GmbH	Germany	Gas transportation and distribution	35	35	35
AEB	Hungary	Banking	26	26	26
BSPC	Netherlands	Construction and gas transportation	50	50	50
EuRoPol GAZ S.A.	Poland	Gas transportation and distribution	48	48	48
Debis Energy GmbH	Germany	Gas distribution	—	49	49
GASA—Zarubezhgas Import-Export GmbH	Germany	Gas distribution	30	30	30
Gas und Warenhandels GmbH	Austria	Gas distribution	50	50	50
Gasym Oy	Finland	Gas transportation and distribution	25	25	25
ЗАО KazRosGaz	Kazakhstan	Gas transportation and distribution	50	38	—
Latvias Gaze	Latvia	Gas transportation and distribution	25	25	25
АО Moldovagaz	Moldova	Gas transportation and distribution	50	50	50
Panrusgaz	Hungary	Gas distribution	40	31	31
Progress Gaz Trading	Yugoslavia	Gas distribution	25	25	25
Prometheus Gas	Greece	Gas distribution	50	50	50
Promgaz S.P.A.	Italy	Gas distribution	50	50	50
Slovrusgaz	Slovakia	Gas distribution	50	50	50
Stella Vitae	Lithuania	Gas transportation and distribution	30	30	30
ЗАО Stimul	Russia	Production of oil and gas condensate	38	38	38
ОАО Стройтрансгаз	Russia	Construction	26	—	—
Turugaz	Turkey	Gas distribution	45	45	45
Fragaz	France	Gas distribution	50	50	50

In February 2003 the Group sold 40.1% out of the 46.4% interest in the share capital of ЗАО Agrochemical Corporation Azot at its carrying value of RR 394 for cash, reducing the Group's interest to 6.3%. The shares were sold to the other shareholders of ЗАО Agrochemical Corporation Azot as a result of the latter taking advantage of the pre-emptive purchase rights. In April 2003 a part of this transaction was cancelled by an agreement of the parties. As a result the Group received back a 33.9% interest in ЗАО Agrochemical Corporation Azot and returned RR 333 of the cash received in February

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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11 INVESTMENTS IN ASSOCIATED UNDERTAKINGS—(continued)

2003. In July 2003 the Group acquired an additional 7.2% interest in ZAO Agrochemical Corporation Azot at par value from the existing shareholders. The consideration of RR 71 was paid in cash and approximates the fair value of purchased net assets. Accordingly, as of 31 December 2003 the Group had a 47.4% interest in ZAO Agrochemical Corporation Azot, which was included in other investments in associated undertakings.

In April 2003 the Group completed the acquisition of a 25.9% interest in the ordinary shares of ОАО Стройтрансгаз and accordingly the Group's investment was classified as an investment in an associated undertaking. The consideration paid, with an aggregated fair value of RR 3,336, consisted primarily of promissory notes and cash. The fair value of consideration paid approximated the fair value of net assets acquired. In August 2003 the Group acquired 15.54% of preference shares and an additional 0.2% of ordinary shares in ОАО Стройтрансгаз for RR 152. ОАО Стройтрансгаз is a major Russian constructor of pipelines, compressor stations and refineries (see Note 30).

12 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December		
	2003	2002	2001
Long-term accounts receivable and prepayments (net of impairment provision of RR 8,838, RR 7,636 and RR 7,460 as of 31 December 2003, 2002 and 2001, respectively)	49,062	50,552	39,550
Advances for assets under construction (net of impairment provision of RR 1,398, RR 988 and RR 2,255 as of 31 December 2003, 2002 and 2001, respectively)	21,894	22,114	11,766
	<u>70,956</u>	<u>72,666</u>	<u>51,316</u>

Long-term accounts receivable and prepayments include amounts due from South Pars of RR 16,868, RR 22,930 and RR 19,566, net of impairment provision of RR 2,038 as of 31 December 2003, 2002 and 2001. 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 45,156, RR 42,282 and RR 28,784 as of 31 December 2003, 2002 and 2001, respectively.

13 OTHER NON-CURRENT ASSETS

	31 December		
	2003	2002	2001
VAT related to assets under construction	17,827	14,419	5,963
Available-for-sale investments (net of provision for impairment of RR 16,266, RR 23,796 and RR 13,971 as of 31 December 2003, 2002 and 2001, respectively)	10,584	12,868	15,768
Other non-current assets	<u>11,131</u>	<u>14,599</u>	<u>13,296</u>
	<u>39,542</u>	<u>41,886</u>	<u>35,027</u>

During the year ended 31 December 2002, RR 9,335 of long-term available-for-sale investments of ОАО АKB National Reserve Bank were deconsolidated (see Note 28).

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In millions of Russian Roubles)

14 ACCOUNTS PAYABLE AND ACCRUED CHARGES

	31 December		
	2003	2002	2001
Trade payables.....	37,157	32,783	46,162
Accounts payable for acquisition of property, plant and equipment.....	36,906	32,361	34,888
Advances received.....	3,862	3,867	2,222
Accruals and deferred income.....	1,550	1,241	2,763
Other payables.....	44,798	25,588	37,522
	<u>124,273</u>	<u>95,840</u>	<u>123,557</u>

Other payables include RR 16,960, RR 19,634 and RR 13,584 related to the operations of the Group's banking subsidiaries as of 31 December 2003, 2002 and 2001, respectively. These balances mainly represent amounts due to the banks' customers with terms at commercial rates, varying by maturity of deposit, ranging from 2.0% to 9.0% per annum as of 31 December 2003, from 2.2% to 12.5% per annum as of 31 December 2002 and from 0.7% to 12.6% per annum as of 31 December 2001.

In the years ended 31 December 2003, 2002 and 2001 approximately 24%, 31% and 41% of the Group's settlements of accounts payable and accrued charges were settled via non-cash settlements.

RR 8,229, RR 2,182 and RR 1,098 of trade payables are denominated in foreign currency, mainly the US dollar, at 31 December 2003, 2002 and 2001, respectively.

15 TAXES PAYABLE

	31 December		
	2003	2002	2001
VAT.....	55,340	63,048	66,544
Excise tax.....	31,086	28,052	39,282
Tax penalties and interest.....	8,940	12,411	23,063
Profit tax.....	3,745	3,027	533
Natural resources production tax.....	1,296	80	—
Road users tax.....	794	4,400	6,414
Royalty and mineral restoration taxes.....	442	470	7,160
Other taxes.....	8,267	5,995	7,748
	<u>109,910</u>	<u>117,483</u>	<u>150,744</u>
Less: long term portion of restructured tax liabilities.....	<u>(6,111)</u>	<u>(10,592)</u>	<u>(21,957)</u>
	<u>103,799</u>	<u>106,891</u>	<u>128,787</u>

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 (16%, 21% and 25% per annum as of 31 December 2003, 2002 and 2001, respectively). Interest does not accrue on tax penalties and interest.

Included within VAT payable as of 31 December 2003, 2002 and 2001 is RR 50,928, RR 59,163 and RR 65,417, respectively, of deferred VAT that is only payable to the tax authorities when the underlying receivable is recovered or written off.

The long-term portion of restructured tax liabilities comprise various taxes, penalties and interest payable to the Russian Government which were previously past due and which were restructured in years 2000, 2001 and 2002 following the application of Government Resolution dated 3 September 1999 No.1002. The Group's current restructuring agreements presume payments of outstanding restructured taxes over a period of ten years, in accordance with agreed payment schedules.

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In millions of Russian Roubles)

15 TAXES PAYABLE—(continued)

The restructuring resulted in the recognition of a gain recorded in the consolidated statement of income as part of net monetary effects and financing items in the amount of nil, RR 1,349 and RR 21,526 for the years ended 31 December 2003, 2002 and 2001, respectively (see Note 24). The gain is based on the difference between the estimated fair value of the new restructuring agreement (based on discounted future cash flows) and the carrying amount of the old payables. Failure to pay the restructured taxes as they become due would result in reinstatement of the original liability.

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 2,879, RR 4,650 and RR 3,513 for the years ended 31 December 2003, 2002 and 2001, respectively.

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

	31 December		
	2003	2002	2001
Between one and two years	1,245	4,667	4,598
Between two and five years.....	8,258	7,067	6,977
After five years	<u>1,877</u>	<u>10,258</u>	<u>45,767</u>
	11,380	21,992	57,342
Less: unamortized discount on restructured taxes.....	<u>(5,269)</u>	<u>(11,400)</u>	<u>(35,385)</u>
	<u>6,111</u>	<u>10,592</u>	<u>21,957</u>

The total amortised cost of restructured tax liabilities were RR 8,075, RR 13,071 and RR 24,943 as of 31 December 2003, 2002 and 2001, 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 2,332, RR 6,622 and RR 7,949 of the restructured tax liabilities as of 31 December 2003, 2002 and 2001, 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 2003 and 2002, having complied with the terms of the accelerated repayment schedules of such payables provided for by the regulation, some of the Group's subsidiaries became eligible to extinguish one half of restructured tax interest and fines. The additional gain recorded upon extinguishment of restructured tax interest and fines is recorded in the consolidated statement of income as a part of net monetary effects and financing items in the amount of RR 4,007 and RR 9,435 for the years ended 31 December 2003 and 2002 (see Note 24).

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

	31 December		
	2003	2002	2001
Short-term borrowings:			
RR denominated borrowings	25,905	41,370	38,581
Foreign currency denominated borrowings	<u>49,950</u>	<u>45,690</u>	<u>63,496</u>
	75,855	87,060	102,077
Current portion of long-term borrowings (see Note 17)	<u>94,767</u>	<u>97,763</u>	<u>91,013</u>
	<u>170,622</u>	<u>184,823</u>	<u>193,090</u>

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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16 SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS—(continued)

Short-term RR denominated borrowings had average interest rates ranging from 8.8% to 16.5%, from 5.0% to 20.1% and from 5.0% to 25.0% for the years ended 31 December 2003, 2002 and 2001, respectively. Short-term foreign currency denominated borrowings had average interest rates ranging from 4.3% to 10.8%, from 5.0% to 15.5% and from 6.5% to 16.0% for the years ended 31 December 2003, 2002 and 2001, respectively.

In 2002 OAO Gazprom placed RR 5,000 of bonds due 3 November 2005 with an interest rate of 15% payable every six months and a put option on 14 November 2003. The estimated fair value of the put option was RR 43 as of 31 December 2002.

As of 31 December 2002 short-term borrowings include RR 4,019 of coupon documentary bearer bonds issued by OAO Gazprom in 1999. The issue amounted to 3.0 million bonds, each with a nominal value of 1,000 roubles and a due date of 15 April 2003. During the years 2000 and 2001, the Group repurchased 577 thousand bonds. As of 31 December 2001 the bonds in the amount of RR 3,207 were included within long-term borrowings. As of 31 December 2002 the bonds were resold to external parties and are included within short-term borrowings. In April 2003 the bonds were redeemed.

Included within the current portion of long-term borrowings as of 31 December 2001 is an interest free loan provided by RAO UES with a fair value of RR 8,754 and nominal value of RR 10,140. The loan was received on 27 December 2001. The purpose of the loan was to finance settlements of current tax liabilities of the Group's subsidiaries. The loan was settled in cash during the year ended 31 December 2002.

17 LONG-TERM BORROWINGS

	Currency	Due	31 December		
			2003	2002	2001
Long-term borrowings payable to:					
Morgan Stanley AG.....	US dollar	2003-2013	53,199	—	—
Loan participation notes (issued September 2003).....	Euro	2003-2010	37,593	—	—
Credit Lyonnais	US dollar	2001-2005	32,556	54,325	80,290
Eurobonds issued by AB Gazprombank (ZAO) in October 2003	US dollar	2003-2008	22,185	—	—
Salomon Brothers AG.....	US dollar	2002-2009	21,039	22,691	—
Dresdner Bank AG	US dollar	2001-2005	20,070	39,219	59,515
Bayerische Hypo-und Vereinsbank AG	US dollar	2002-2008	18,326	23,557	—
Intesa BCI	US dollar	2001-2007	16,423	23,959	32,945
Mannesmann (Deutsche Bank AG)	Euro	2001-2008	15,424	17,908	19,636
Depfa Bank	US dollar	2003-2008	15,116	—	—
Salomon Brothers AG.....	US dollar	2002-2007	14,974	16,158	—
Societe Generale	US dollar	2002-2008	9,183	10,348	—
Deutsche Bank AG	US dollar	2003-2006	8,878	—	—
Mizuho Bank (Fuji Bank).....	US dollar	2000-2010	8,816	9,598	6,383
German banking consortium	Euro	2001-2007	7,889	8,872	10,943
International banking consortium	Euro	2003-2007	7,733	—	—
SACE	US dollar	2000-2013	7,503	7,435	1,845
WestLB AG.....	US dollar	2003-2005	6,335	—	—
ABN AMRO	US dollar	2002-2004	5,990	6,473	—
Eurobonds issued by AB Gazprombank (ZAO) in October 2002	Euro	2002-2005	5,547	4,625	—

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In millions of Russian Roubles)

17 LONG-TERM BORROWINGS—(continued)

	<u>Currency</u>	<u>Due</u>	<u>31 December</u>		
			<u>2003</u>	<u>2002</u>	<u>2001</u>
Moscow Narodny Bank	US dollar	2001-2006	5,215	7,507	6,969
ОАО Vneshtorgbank	US dollar	2001-2004	4,720	21,330	23,285
Bayerische Hypo-und Vereinsbank AG	Euro	2001-2006	4,642	6,037	7,273
ОАО Alfa Bank	US dollar	2002-2004	4,426	4,776	—
International banking consortium	Euro	2001-2003	—	11,728	13,018
Eurobonds issued by AB Gazprombank (ZAO) in October 2001	Euro	2001-2003	—	6,167	6,099
Other long-term borrowings	Various	Various	<u>44,740</u>	<u>43,653</u>	<u>60,225</u>
Total long-term borrowings			398,522	346,366	328,426
Less: current portion of long-term borrowings			<u>(94,767)</u>	<u>(97,763)</u>	<u>(91,013)</u>
			<u>303,755</u>	<u>248,603</u>	<u>237,413</u>

	<u>31 December</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
RR denominated borrowings (including current portion of RR 14,293, RR 17,834 and RR 27,991 as of 31 December 2003, 2002 and 2001, respectively).	34,285	33,191	39,767
Foreign currency denominated borrowings (including current portion of RR 80,474, RR 79,929 and RR 63,022 as of 31 December 2003, 2002 and 2001, respectively).	<u>364,237</u>	<u>313,175</u>	<u>288,659</u>
	<u>398,522</u>	<u>346,366</u>	<u>328,426</u>

Due for repayment:	<u>31 December</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Between one and two years	68,253	92,378	92,063
Between two and five years	109,521	132,010	124,826
After five years	<u>125,981</u>	<u>24,215</u>	<u>20,524</u>
	<u>303,755</u>	<u>248,603</u>	<u>237,413</u>

Long-term borrowings include fixed rate loans with a carrying value of RR 247,763, RR 120,134 and RR 71,294, and fair value of RR 275,788, RR 120,010 and RR 68,243 as of 31 December 2003, 2002 and 2001, respectively. All other long-term borrowings have variable interest rates linked to LIBOR, and the carrying amounts approximate fair value.

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:

	<u>31 December</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Fixed rate RR denominated long-term borrowings	15.00%	15.01%	16.15%
Fixed rate foreign currency denominated long-term borrowings	8.48%	8.14%	7.84%
Variable rate foreign currency denominated long-term borrowings	<u>4.22%</u>	<u>4.68%</u>	<u>6.33%</u>

As of 31 December 2003, 2002 and 2001 long-term borrowings of RR 154,858, RR 219,700 and RR 210,807, respectively, inclusive of current portion of long-term borrowings, are secured by revenues from export supplies of gas to Europe.

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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17 LONG-TERM BORROWINGS—(continued)

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

As of 31 December 2003 and 2002 long-term bank borrowings included loan 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. The Loan Participation Notes have a put option exercisable on 21 October 2005. The estimated fair value of the put option is RR 476 and RR 766 as of 31 December 2003 and 2002, respectively.

18 PROFIT TAX

Following the enactment of new tax rates on 1 January 2001, the Group accrued current profit tax at the rate of 35% and 43% on profits from non-banking and banking activities, correspondingly, for the year ended 31 December 2001.

In August 2001 the Profit tax chapter of the Tax Code was enacted, which changed the profit tax rate to 24% on profits for non-banking and banking activities. This rate became effective starting from 1 January 2002.

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

	Year ended 31 December		
	2003	2002	2001
Profit before profit tax and minority interest	236,974	165,754	231,729
Theoretical tax charge at a statutory rate (24%, 24% and 35% for the years ended 31 December 2003, 2002 and 2001, respectively) .	(56,874)	(39,781)	(81,105)
Tax effect of items which are not deductible or assessable for taxation purposes:			
Inflationary effects	—	(63,278)	(101,338)
Non-deductible expenses	(21,334)	(31,644)	(40,535)
Statutory tax concessions	—	—	13,721
Other non-temporary differences	3,391	(1,429)	8,167
Effect of change in tax rate	—	—	(12,101)
Profit tax expense	<u>(74,817)</u>	<u>(136,132)</u>	<u>(213,191)</u>

Inflationary effects for the years ended 31 December 2002 and 2001 principally include the impact of inflation on shareholders' equity, deferred tax assets and liabilities at the beginning of the reporting period and current profit tax expense.

Profit tax expense in the consolidated statement of income is stated net of RR 1,085, RR 333 and RR 950 of tax attributable to gains arising on treasury share transactions for the year ended 31 December 2003, 2002 and 2001, 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%, 24% and 35% for the years ended 31 December 2003, 2002 and 2001, respectively.

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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18 PROFIT TAX—(continued)

	31 December 2003	Differences recognition and reversals	31 December 2002	Differences recognition and reversals	Effect of changes in tax legislation	Effect of deconsolidation of NRB	31 December 2001
Tax effects of taxable temporary differences:							
Property, plant and equipment.....	(98,753)	(31,748)	(67,005)	(74,436)	(30,171)	—	37,602
Accounts receivable	—	—	—	—	19,727	—	(19,727)
Investments	(1,138)	3,269	(4,407)	(6,741)	—	3,276	(942)
Inventories	(2,948)	(1,093)	(1,855)	(803)	—	—	(1,052)
	(102,839)	(29,572)	(73,267)	(81,980)	(10,444)	3,276	15,881
Tax effects of deductible temporary differences:							
Tax losses carryforward ...	4,505	(5,743)	10,248	10,248	—	—	—
Other deductible temporary differences...	1,511	1,511	—	—	—	—	—
Total net deferred tax (liabilities) assets	<u>(96,823)</u>	<u>(33,804)</u>	<u>(63,019)</u>	<u>(71,732)</u>	<u>(10,444)</u>	<u>3,276</u>	<u>15,881</u>

Deferred tax assets and liabilities arise mainly from differences in the taxable and financial reporting bases of property, plant and equipment. These differences for property, plant and equipment are historically due to the fact that a significant proportion of the tax base is 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.

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 1 January 2002, resulting in increased tax depreciation and a RR 30,171 increase in the deferred tax liability attributable to property, plant and equipment as of 31 December 2002.

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 4,505 and RR 10,248 as of 31 December 2003 and 2002, respectively. RR 23,931 of tax losses carry forward were utilised in the year ended 31 December 2003. Management believes it is probable that these losses will continue to be realized through offset against future taxable profit.

The deferred tax liability attributable to accounts receivable balances reversed in the year ended 31 December 2002 principally as a result of the change in the underlying tax legislation, effective 1 January 2002, to recognize sales revenue for profit tax purposes on an accrual rather than a cash basis.

The difference between the amount of temporary differences recognition and reversals for the years ended 31 December 2003 and 2002 and respective deferred profit tax expense recognised in the consolidated statement of income for the years ended 31 December 2003 and 2002 arises from transactions with treasury shares and is recognised in the consolidated statement of changes in shareholders’ equity.

Tax losses and current tax assets of the different companies in the Group may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one company of the Group is not offset against a deferred tax liability of another company. As at 31 December 2003 and 2002

OAO GAZPROM
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18 PROFIT TAX—(continued)

deferred tax assets in the amount of RR 933 and RR 1,883, respectively, 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 166,524, RR 105,453 and RR 54,674 as of 31 December 2003, 2002 and 2001, 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		
	2003	2002	2001
Unrealized fair value gains (losses), net	3,749	(4,828)	(1,211)
Realized gains on sale, net.	1,268	1,099	218
Gains (losses) on available-for-sale investments, net	<u>5,017</u>	<u>(3,729)</u>	<u>(993)</u>

The Group adopted IAS 39 at 1 January 2001. The impact on shareholders' equity at 1 January 2001 was a net gain of RR 627 in retained earnings for the re-measurement of available-for-sale securities to estimated fair value as of 1 January 2001.

Derivative financial instruments

As of 31 December 2003 the Group's banking subsidiaries had outstanding contracts to purchase and sell 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.

	31 December					
	2003		2002		2001	
	Notional principal equivalents	Fair value	Notional principal equivalents	Fair value	Notional principal equivalents	Fair value
Foreign exchange contracts						
Call options held—domestic.	—	—	—	—	3,401	3,410
Call options held—foreign	3,061	3,042	651	655	661	661
Call options written—foreign.	(1,461)	(1,473)	—	—	(11,667)	(11,667)
Put options written—foreign	1,378	1,473	—	—	—	—
	2,978	3,042	651	655	(7,605)	(7,596)
Bullion forward contracts						
Assets domestic	—	—	—	—	2,359	2,429
Assets foreign	140	143	—	—	—	—
Liabilities foreign	(244)	(252)	—	—	—	—
	(104)	(109)	—	—	2,359	2,429

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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19 FINANCIAL INSTRUMENTS—(continued)

	31 December					
	2003		2002		2001	
	Notional principal equivalents	Fair value	Notional principal equivalents	Fair value	Notional principal equivalents	Fair value
Securities forward contracts						
Assets—foreign.	—	—	166	166	—	—
Assets—domestic	—	—	637	708	708	708
Liabilities—domestic	—	—	(149)	(159)	—	—
	—	—	654	715	708	708
	—	—	—	—	—	—

The maturities of all derivative financial instruments are less than one month. Subsequently all deals were settled in the normal course of business.

As of 31 December 2001 the Group had outstanding forward foreign exchange contracts with Russian and foreign banks whereby it had agreed to buy or sell Russian Roubles in exchange for another currency at an exchange rate agreed to at the date of the contract. Some of these contracts were entered into prior to 17 August 1998 and matured during 1998, but had not yet been settled. The Group has been able to settle outstanding contracts with some counterparties and any resultant gains or losses have been recorded in the consolidated statement of income.

The Civil Code of the Russian Federation stipulates a three-year period for commencing action to enforce contracts. This period expired during 2001. On the basis of legal advice regarding the enforceability of these contracts under Russian law, market practices and the activities of other participants in the derivatives market in Russia, as well as a significant passage of time, management believed these contracts with domestic banks were no longer legally enforceable, and no losses would arise for the Group as a result of these contracts. Management has therefore not recorded any liabilities in respect of these contracts with domestic banks in the consolidated financial statements. Liabilities recorded under these contracts before 2001, amounting to RR 9,340, were released and recorded as derivative gains within operating expenses for the year ended 31 December 2001. The remaining written foreign currency option contracts with the principal amount of RR 11,667 at 31 December 2001 were due mostly by the Group banking subsidiary OAO AKB National Reserve Bank to foreign customers. In July 2002 the Group sold a 37% interest in the bank (see Note 28) and, accordingly, as of 31 December 2002 did not include the results of bank's operations into the Group's consolidated financial statements.

20 PROVISIONS FOR LIABILITIES AND CHARGES

	<i>Note</i>	31 December		
		2003	2002	2001
Provision for pension obligations		30,595	19,386	13,921
Provision for environmental liabilities	31	4,034	2,368	1,377
Other		251	235	4,749
		<u>34,880</u>	<u>21,989</u>	<u>20,047</u>

During the year ended 31 December 2002, RR 4,129 of provisions for liabilities and charges of OAO AKB National Reserve Bank were deconsolidated (see Note 28).

Total expenses associated with pension obligations are included within operating expenses in the consolidated statement of income and amount to RR 11,827, RR 5,813 and RR 3,525 for years ended 31 December 2003, 2002 and 2001, respectively.

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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20 PROVISIONS FOR LIABILITIES AND CHARGES—(continued)

The amounts recognized in the balance sheet are as follows:

	31 December		
	2003	2002	2001
Present value of obligations (unfunded)	56,762	49,034	24,899
Unrecognised actuarial losses	(24,696)	(28,095)	(10,978)
Unrecognised past service cost	(1,471)	(1,553)	—
Net liability	<u>30,595</u>	<u>19,386</u>	<u>13,921</u>

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

	Year ended 31 December		
	2003	2002	2001
Current service cost	1,761	1,261	1,613
Interest cost	6,647	3,392	1,912
Past service cost amortisation	82	—	—
Net actuarial losses	1,221	434	—
Vested prior service cost	<u>2,116</u>	<u>726</u>	<u>—</u>
Net expense recognised in the statement of income	<u>11,827</u>	<u>5,813</u>	<u>3,525</u>

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

	Year ended 31 December		
	2003	2002	2001
Net liability at the beginning of the reporting period	19,386	13,921	10,714
Net expense recognised in the consolidated statement of income ..	11,827	5,813	3,525
Benefits paid	(618)	(348)	(318)
Net liability at the end of the reporting period	<u>30,595</u>	<u>19,386</u>	<u>13,921</u>

Principal actuarial assumptions used (expressed as weighted average):

	Year ended 31 December		
	2003	2002	2001
Discount rate (nominal).....	8%	13%	16%
Future salary increases (nominal)	7%	9%	10%
Employees average remaining working life (years)	17	19	17

21 SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR 325,194 as of 31 December 2003, 2002 and 2001, and consists of 23.7 billion ordinary shares, each with a historical par value of 5 roubles.

Dividends

In 2003, the Group accrued and paid total dividends in the nominal amount of RR 0.40 per share in respect of 2002. In 2002, the Group accrued and paid final dividends for the year ended 31 December 2001 in the nominal amount of RR 0.44 per share. In 2001, the Group accrued and paid final dividends for the year ended 31 December 2000 in the nominal amount of RR 0.23 per share.

ОАО ГАЗПРОМ

NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In millions of Russian Roubles)

21 SHAREHOLDERS' EQUITY—(continued)

In 2004 the Board of Directors recommended payment of a final dividend for the year ended 31 December 2003 in the amount of RR 0.69 per share. Because this decision was reached after the balance sheet date, the final dividend proposed in respect of 2003 has not been recognised in the consolidated balance sheet. The final dividend of RR 16,335 (including income tax on dividends in the amount of RR 1,151) will be paid prior to 31 December 2004.

Treasury shares

As of 31 December 2003, 2002 and 2001, subsidiaries of OAO Gazprom held 3,841, 3,841 and 2,672 million of the ordinary shares of OAO Gazprom, respectively. The Group management controls the voting rights of these shares.

In September 2002 the Group entered into an agreement with OAO Sroytransgaz to establish a joint activity which was formally established in October 2002. The Group contributed promissory notes of OAO Gazprom with a fair value of RR 4,759 (face value RR 5,719) payable in January 2004 and OAO Sroytransgaz contributed 1,144 million of ordinary shares of OAO Gazprom. As of 31 December 2002 voting rights for the 1,144 million ordinary shares of OAO Gazprom, held by a joint activity with OAO Sroytransgaz were controlled by the Group in accordance with the specific terms of the joint activity agreement. Accordingly, as of 31 December 2002, the Group's investment in the joint activity was recorded as an investment in treasury shares for accounting purposes and classified as a deduction from shareholders' equity, although they do not meet the Russian law definition of treasury shares. In March 2003 OAO Sroytransgaz terminated its participation in the joint activity agreement with the Group in return for promissory notes contributed by the Group into this joint activity. As a result, the Group now owns and continues to control the votes for the 1,144 million of OAO Gazprom ordinary shares held by the joint activity.

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 1,101, RR 2,052 and RR (1,532) arising on the translating of the net assets of foreign subsidiaries and associated undertakings as of 31 December 2003, 2002 and 2001, 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 4,610, RR 2,133 and RR 5,360 have been transferred to governmental authorities during the years ended 31 December 2003, 2002 and 2001, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

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. The statutory profit for the parent company was RR 142,623, RR 53,513 and RR 71,928 for 2003, 2002 and 2001, respectively. 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.

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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22 SALES

	Year ended 31 December		
	2003	2002	2001
Gas sales (including excise tax and net of VAT and custom duties) to customers in:			
Russian Federation	206,094	159,642	133,187
Former Soviet Union (excluding Russian Federation)	53,591	61,506	56,221
Europe	547,381	433,085	520,647
Gross sales of gas	807,066	654,233	710,055
Excise tax	(154,051)	(125,195)	(123,213)
Net sales of gas	653,015	529,038	586,842
Sales of gas condensate and oil and gas products (net of sales taxes)	92,180	56,647	74,640
Gas transportation sales	28,226	18,028	18,226
Other revenues	46,332	40,974	33,259
	<u>819,753</u>	<u>644,687</u>	<u>712,967</u>

As a result of consolidation of regional trade houses beginning in 2002 the Group incurred excise tax on domestic sales in the amount of RR 14,469 for the year ended 31 December 2002 (see Note 28).

A significant part of the natural gas sold by the Group in Europe is transported through the territory of Ukraine. The existing contract with the major customer in Ukraine, the Group's largest FSU customer, stipulates that transit services provided to the Group in Ukraine are settled by gas sales. For the years ended 31 December 2003, 2002 and 2001 net gas sales to Ukraine in settlement of transit services were RR 26,604 (26.0 bcm), RR 33,442 (26.2 bcm) and RR 27,440 (21.9 bcm), respectively.

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

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 7,462 (32 bcm), RR 13,920 (61 bcm) and RR 15,936 (64 bcm) for the years ended 31 December 2003, 2002 and 2001, respectively. Trade receivables in respect of gas transportation services supplied to the Itera Group amounted to RR 2,738, RR 3,356 and RR 11,994 as of 31 December 2003, 2002 and 2001, 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 6,388 (15.5 bcm) and RR 1,871 (8.1 bcm) for the years ended 31 December 2003 and 2002, respectively. Trade receivables in respect of gas sales to the Itera Group amounted to RR 1,694 and RR 631 as of 31 December 2003 and 2002, 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 commenced in January 2003 and amounted to RR 14,759 (34.9 bcm) for the year ended 31 December 2003. Trade receivables in respect of gas transportation services supplied to Eural Trans Gas amounted to RR 2,971 as of 31 December 2003.

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In millions of Russian Roubles)

23 OPERATING EXPENSES

	Year ended 31 December		
	2003	2002	2001
Transit costs	108,711	102,632	95,105
Staff costs	100,122	65,717	59,456
Depreciation	99,648	93,454	99,868
Materials	44,395	47,310	59,602
Repairs and maintenance	42,955	24,218	21,552
Taxes other than on income	35,088	43,975	46,289
Purchased gas	29,650	9,957	7,466
Impairment provisions and other provisions	28,826	13,908	41,083
Electricity	24,300	13,449	11,430
Processing services	16,243	13,226	12,595
Cost of goods for resale, including refined products	11,870	17,900	21,085
Social expenses	11,724	7,013	6,088
Research and development	6,083	4,464	4,360
Transportation services	5,684	3,423	6,048
Other	28,116	36,067	14,816
	<u>593,415</u>	<u>496,713</u>	<u>506,843</u>

Taxes other than on income consist of:

	Year ended 31 December		
	2003	2002	2001
Natural resources production tax	19,644	20,485	—
Property tax	10,646	9,371	9,563
Road users tax	—	10,369	9,924
Royalty tax	—	—	12,633
Mineral restoration tax	—	—	9,090
Other taxes	4,798	3,750	5,079
	<u>35,088</u>	<u>43,975</u>	<u>46,289</u>

Taxes other than on income included in operating expenses are computed as follows:

- Effective 1 January 2002, the royalty and mineral restoration taxes were abolished and replaced by a natural resources production tax. The rate of natural resources production tax is 16.5% of the value of gas and gas condensate produced from gas condensate fields and RR 340 per ton of oil and gas condensate produced from oil and gas condensate fields. The latter rate is subject to adjustments depending on fluctuations of oil price and the RR exchange rate;
- Road users tax was charged on sales by Group entities; changes in legislation effective 1 January 2001 reduced the road users tax from 2.5% to 1.0% and abolished the housing fund tax. An additional RR 2,261 of road users' tax was accrued in 2002 in respect of unpaid accounts receivable as of 31 December 2002 as the tax was abolished from 1 January 2003;
- Property tax is imposed at a maximum rate of 2.0% on the average annual net book value of fixed assets, intangible assets, inventory and on assets under construction which were not completed within contracted terms. Legislation provides for the exclusion of trunk pipelines from the taxable base;
- In 2001 royalty tax was imposed at rates ranging from 6.0% to 16.0% of the sales value of gas and other hydrocarbons produced. The actual rates of the tax were dictated in field licenses and were based on various factors;

ОАО ГАЗПРОМ

NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In millions of Russian Roubles)

23 OPERATING EXPENSES—(continued)

- In 2001 mineral restoration tax was charged at the rate of 10.0% of the sales value of gas and other hydrocarbons sold by the production subsidiaries paid. Under legislation, in 2001 up to 100% of mineral restoration tax assessments could have been offset by a sum equal to the value of certain exploration works performed and paid for by the Group. In 2001 the Group recovered 32.4% of mineral restoration tax assessments using this provision.

All taxes and rates discussed above are calculated based on amounts recorded in accordance with Russian statutory accounting regulations.

24 GAINS ON AND EXTINGUISHMENT OF RESTRUCTURED LIABILITIES

	<i>Note</i>	Year ended 31 December		
		2003	2002	2001
Gain on extinguished restructured tax liabilities	15	4,007	9,435	—
Gain on other restructured liabilities		—	3,124	1,596
Gain on restructured tax liabilities	15	—	1,349	21,526
		<u>4,007</u>	<u>13,908</u>	<u>23,122</u>

During 2002 an amicable agreement was signed by ОАО АК Сibur with its creditors to restructure its liabilities (see Note 28). The present value of RR and foreign currency denominated liabilities, discounted at 17.1% and 8.7%, respectively, was RR 10,373 compared to a nominal value of RR 13,211. The resulting decrease is accounted for as an extinguishment of liability and the gain of RR 3,124 was recognised in the consolidated statement of income for the year ended 31 December 2002. The increase of the carrying amount of the liability in subsequent years, as a result of the accretion of the discount, will be recognised in the statement of income as an interest expense.

25 RECONCILIATION OF RAR PROFIT TO IFRS NET PROFIT

	Year ended 31 December		
	2003	2002	2001
RAR profit per consolidated statutory accounts	170,877	121,598	115,565
Effects of IFRS adjustments:			
Deferred tax expense	(4,229)	(82,242)	(118,234)
Transition period current profit tax expense	6,564	(20,203)	—
Net effect of additional taxes other than on income	(106)	(6,605)	(3,181)
Impairment provisions and other provisions	(14,813)	(6,883)	(8,046)
Monetary gain	—	31,380	33,513
Net effect on indexation of revenues and costs	—	18,593	25,450
Discount related to restructured tax and other liabilities	—	4,473	21,526
Difference in gains on extinguished restructured tax liabilities . . .	(3,066)	(16,259)	—
(Losses) gains on available-for-sale investments	(2,198)	(4,806)	6,381
Gain from sale of treasury shares	(4,679)	(1,057)	(4,332)
Net decrease (increase) in depreciation charge	1,287	(3,596)	6,248
Derecognition of income related to penalties and interest	(125)	(4,264)	(24,588)
Other	9,583	(1,174)	(37,103)
IFRS net profit	<u>159,095</u>	<u>28,955</u>	<u>13,199</u>

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.

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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26 EARNINGS PER SHARE—(continued)

There were 19.8 billion, 20.8 billion and 21.0 billion weighted average shares outstanding for the years ended 31 December 2003, 2002 and 2001, respectively.

27 NET CASH PROVIDED BY OPERATING ACTIVITIES

	Year ended 31 December		
	2003	2002	2001
Profit before profit tax and minority interest	236,974	165,754	231,729
Adjustments to net profit before profit tax			
Depreciation.	99,648	93,454	99,868
Impairment provisions and other provisions	28,826	13,908	41,083
Net unrealised foreign exchange (gains) losses	(12,529)	14,474	9,378
Interest expense on borrowings and promissory notes.	32,301	29,265	42,902
Gains on and extinguishment of restructured liabilities.	(4,007)	(13,908)	(23,122)
Losses on disposal of property, plant and equipment.	1,749	6,405	5,849
Monetary effects on non-operating balances	—	(53,750)	(65,461)
Interest income	(15,295)	(10,636)	(14,184)
Release of provision on forward foreign exchange contracts	—	—	(9,340)
Net (increase) decrease in long-term assets	(10,759)	(4,054)	26,486
Net (decrease) increase in long-term liabilities	(22,116)	7,038	2,255
Non-cash additions to property, plant and equipment and other long-term investments	(33,107)	(44,399)	(60,220)
(Gains) losses on fair value adjustments for trading and available-for-sale investments	(3,749)	4,828	(8,339)
Share of net income from associated undertakings.	(3,478)	(4,285)	(4,087)
Total effect of adjustments	<u>57,484</u>	<u>38,340</u>	<u>43,068</u>
	294,458	204,094	274,797
Changes in working capital			
(Increase) decrease in accounts receivable and prepayments	(47,308)	57,234	73,609
(Increase) decrease in inventories	(14,890)	5,582	(4,791)
(Increase) decrease in other current assets.	(12,614)	6,436	(23,748)
(Decrease) increase in accounts payable and accrued charges, excluding interest, dividends and capital construction	(38)	(28,124)	15,270
Decrease in taxes payable (other than profit tax).	(2,925)	(40,616)	(71,837)
(Increase) decrease in available-for-sale and trading investments . . .	(26,741)	(9,365)	5,433
Total effect of working capital changes.	<u>(104,516)</u>	<u>(8,853)</u>	<u>(6,064)</u>
Profit tax paid	<u>(48,096)</u>	<u>(35,130)</u>	<u>(105,189)</u>
Net cash provided by operating activities.	<u>141,846</u>	<u>160,111</u>	<u>163,544</u>

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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27 NET CASH PROVIDED BY OPERATING ACTIVITIES—(continued)

Total cash taxes paid:

	Year ended 31 December		
	2003	2002	2001
Excise	150,449	128,778	129,734
VAT	51,878	39,131	67,295
Profit tax	48,096	35,130	105,189
Custom duties	34,696	27,606	40,983
Natural resources production tax	18,443	20,871	—
Property tax	9,904	5,660	8,457
Road users tax	4,111	11,628	14,229
Royalty and mineral restoration tax	—	—	21,260
Other	17,143	19,759	21,511
Total taxes paid	334,720	288,563	408,658

28 SUBSIDIARY UNDERTAKINGS

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

ООО Astrakhangazprom	ООО Informgaz	ООО Severgazprom
ООО Bashtransgaz	ООО IRTs Gazprom	ОАО Severneftegazprom
ООО Burgaz	ООО Kavkaztransgaz	ООО Servicegazprom
ООО VNIlgaz	ООО Kaspigazprom	ООО Shzhzhenny gas
ООО Volgogradtransgaz	ООО Kubangazprom	ООО Surgutgazprom
ООО Volgotransgaz	ООО Lentransgaz	ООО Tattransgaz
ООО Gazkomplektimpex	ООО Mezhregiongaz	ООО Tomsktransgaz
ООО Gaznadzor	ООО Mostransgaz	ООО TyumenNIIgiprokaz
ООО Gazobezopasnost	ООО Nadymgazprom	ООО Tyumentransgaz
ООО Gazpromavia	ООО Nadymsroystrogazdobytycha	ООО Uraltransgaz
ЗАО Gazpromstroyengineering	ООО Novourenyosky GCC	ООО Urenyogazprom
ООО Gazpromtrans	ООО Noyabryskgazdobytycha	ООО Yugtransgaz
ООО Gazsvyaz	ООО Orenburggazprom	ЗАО Yamalgazinvest
ООО Gaztorgpromstroy	ООО Permtransgaz	ООО Yamburggazdobytycha
ООО Gazflot	ООО Podzemgazprom	
ООО Gazexport	ООО Samaratransgaz	

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

Other principal subsidiary undertakings, 100% owned

<u>Company</u>	<u>Type of activity</u>	<u>Location</u>
ООО Gazprominvestholding	Investing	Russia
ОАО Gazprom-Media	Media	Russia
Gazprom Finance B.V.	Investing	Netherlands
Gazprom UK Ltd.	Investing	United Kingdom
Gazprom UK Trading Ltd.	Trading	United Kingdom
Zarubezhgaz Management und Beteiligungsgesellschaft GmbH (ZMB)	Gas distribution	Germany
Zarubezhgaz Erdgasandel GmbH (ZGG)	Gas distribution	Germany
Leadville Investments Ltd.	Investing	Cyprus

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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28 SUBSIDIARY UNDERTAKINGS—(continued)

Other principal subsidiary undertakings, less than 100% owned

	Percent of ordinary shares held as of 31 December			Location
	2003	2002	2001	
Wintershall Erdgas Handelshaus GmbH (WIEH).....	50	50	50	Germany
Wintershall Erdgas Handelshaus Zug AG (WIEE)	50	50	50	Romania
ОАО Волгограднефтемаш.....	51	51	51	Russia
ОАО Востокгазпром.....	84	84	51	Russia
ОАО Газавтоматика	49	49	49	Russia
ОАО Газэнергосervice	51	51	51	Russia
АВ Газпромбанк (ЗАО).....	99	99	98	Russia
ЗАО Геросгаз.....	51	51	51	Russia
ОАО Зapsibгазпром.....	77	77	34	Russia
ЗАО Костроматрубinvest—Volgorechensky Trubny Zavod ...	99	99	99	Russia
ОАО Красноярскгазпром.....	75	75	75	Russia
ОАО Лебединский ГОК.....	—	—	57	Russia
ОАО АKB National Reserve Bank.....	—	—	40	Russia
ЗАО Пургаз.....	51	51	19	Russia
ЗАО Росшельф	53	53	53	Russia
ОАО АК Сибур	78	51	51	Russia
ЗАО АKB Sovfintrade	94	94	94	Russia
ОАО Spetsгазавтотrans.....	51	51	51	Russia
ОАО Согаз	99	99	99	Russia
ОАО TV Company NTV	69	65	65	Russia

ОАО Severneftegazprom

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

Joint activity with ОАО NK Rosneft

The joint activity was established to develop the Arctic shelf (Schtokmanovskoye and Prirazlomnoye fields) in the Barents and Pechora Seas. From inception ОАО Газпром and ЗАО Росшельф, a 53% owned subsidiary of ОАО Газпром, had 99.1% and 0.9% direct interests in the joint activity, respectively. In October 2002 ОАО Газпром and its subsidiary ЗАО Росшельф signed an amendment to the joint activity agreement that provided for an additional participant—ЗАО Севморнеfteгаз. ЗАО Севморнеfteгаз is a company jointly controlled by ЗАО Росшельф and ОАО НК Роснеft-Пуrнеfteгаз, a subsidiary of ОАО НК Роснеft. Under the agreement, in February 2003 ЗАО Севморнеfteгаз made a non-cash contribution valued at RR 4,334 thus obtaining a 48.9% interest in the assets of the joint activity. As a result of the transaction ОАО Газпром and ЗАО Росшельф 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

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28 SUBSIDIARY UNDERTAKINGS—(continued)

2003 all joint activity parties and ОАО НК Rosneft signed an agreement to provide ОАО НК Rosneft with a 49.95% direct interest in the joint activity as recognition of its prior investment into the joint activity. The effect of this transaction was to decrease the Group's total effective interest in the joint activity from 62.9% to 48.85% and to establish joint control of the assets of the joint activity between the Group and ОАО НК Rosneft.

Media companies

Effective 1 January 2002 the Group's interests in media companies were reclassified from short-term available-for-sale investments to subsidiary undertakings as management announced its intention to operate these companies as subsidiaries rather than dispose of them. The media companies do not materially impact the financial position of the Group.

In July 2002 the Group acquired additional interests in ЗАО Media-Most, in ОАО TV Company NTV and in other media subsidiaries. Additionally, the Group acquired payables and promissory notes to third parties due by these companies. The consideration was partially settled in cash and partially through the forgiveness of debt owed to ОАО Gazprom. As a result of this transaction the Group increased its interest in ОАО TV Company NTV from 65.0% to 95.6% and in ЗАО Media-Most from 14.3% to 38.6%. The Group has also increased its controlling interests in the other media subsidiaries. As of 31 December 2003 ЗАО Media Most was under liquidation and accordingly, the Group classified its 38.6% interest as other long-term investments.

In October 2002 the Group signed a framework agreement to sell non-controlling interests in several media companies, including ОАО TV Company NTV, to Eurofinance Group (as nominee), the consideration for which was partially settled in cash and partially through the settlement of certain debt obligations of ЗАО Media-Most and its media companies. The disposed interests primarily comprised those acquired in July 2002. As a result, the Group's interest in ОАО TV Company NTV reduced to 65.0%. Under the framework agreement, Eurofinance Group shall contribute cash and these acquired interests into a new media holding company, which will be controlled and majority-owned by ОАО Gazprom. The Group's contribution into the new holding company will comprise the remaining interests in its media subsidiaries. Management does not believe that the financial effect of these transactions will be material to the Group. As of 31 December 2003 the Group continues to hold a controlling interest in the above media companies.

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

ОАО АК Сибур and petrochemical companies

In the first quarter of 2002 external supervision was introduced in respect of ОАО АК Сибур under decision of the arbitration court.

On 10 September 2002 the creditors' meeting approved an amicable settlement agreement, which was subsequently approved by the court. The agreement provides for the restructuring and rescheduling of ОАО АК Сибур's debts generally over a period of 8 years with first payments due in 2004.

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 ОАО АК Сибур. In April 2003, following the completion of legal procedures the Group established control over majority of these companies, also including ОАО Сибур-Тюмень, and thereby increased its controlling interest in the share capital of ОАО АК Сибур from 50.7% to 75.7%. In respect of this acquisition the Group has issued the long-term promissory notes with a nominal value of RR 17,587 and an estimated fair value of

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28 SUBSIDIARY UNDERTAKINGS—(continued)

approximately RR 6,770. In September 2003 the Group acquired an additional 2.4% interest in AK Sibur for RR 102. Fair values of the identifiable assets and liabilities of these companies have been determined on a provisional basis and might be subject to subsequent adjustments over the period to 31 December 2004. Any adjustments are not expected to be material to the Group's consolidated financial statements. Management does not believe there will be material goodwill arising from the transaction.

ОАО АKB National Reserve Bank

In connection with changes in RF Federal law No.208-FZ of 26 December 1995 "On Joint Stock Companies", effective from 1 January 2002, the Group was not able to exercise its conversion rights on preference shares in ОАО АKB National Reserve Bank. At the same time, the Group lost majority representation on the Board of Directors and no longer exercised control over the activities of the bank. Accordingly, effective 1 January 2002 the Group's investment in the bank was classified as an investment in an associated undertaking. In July 2002, in accordance with the decision of the Board of Directors, the Group disposed of 37.0% of ordinary shares and all of its preference shares in ОАО АKB National Reserve Bank with total carrying value of RR 1,979, in exchange for consideration consisting of promissory notes issued by ОАО АKB National Reserve bank with a fair value of RR 364 payable in June 2003, and 50 million of ordinary shares of ОАО Газпром. As of the date of the transaction ordinary shares of ОАО Газпром were traded at 30.6 roubles per share (in nominal roubles). No gain or loss resulted from the disposal of the Group's interest in ОАО АKB National Reserve Bank. As of 31 December 2003 and 2002, the Group retains a 3.0% interest in ОАО АKB National Reserve Bank, which is recorded within other long-term investments.

ОАО Vostokgazprom

In April 2002 the Group acquired an additional 32.8% of the voting shares of its production subsidiary ОАО Vostokgazprom, increasing its interest from 51.0% to 83.8%. The consideration of RR 2 settled in cash approximates the fair value of purchased net assets.

ОАО Zapsibgazprom

In April 2002 the Federal Securities Commission cancelled the registration of additional stock issued by ОАО Zapsibgazprom, a subsidiary of the Group. As a result, the Group increased its interest in the charter capital of ОАО Zapsibgazprom from 34.0% to 51.1%.

In December 2002 the Group disposed of its 12% interest in ОАО Arcticgas with a carrying value of RR 1 in exchange for 25.6% interest in ОАО Zapsibgazprom and additional cash consideration of USD 2.95 million, increasing its interest in the ordinary share capital of ОАО Zapsibgazprom from 51.1% to 76.7%. No significant gain or loss resulted from this transaction.

ЗАО Purgaz

In April 2002 the Group completed the repurchase of 32.0% of the shares in ЗАО Purgaz from Itera pursuant to the repurchase option provided by a share purchase agreement dated 10 February 1999. As a result, the Group's interest in ЗАО Purgaz increased from 19.0% to 51.0%. ЗАО Purgaz has a licence for the development of the Gubkinskoye gas field in western Siberia. In connection with the acquisition of these ЗАО Purgaz shares, the Group paid Itera RR 33 thousand in cash and financed ЗАО Purgaz repaying RR 6,594 of original financing provided by Itera to ЗАО Purgaz to finance development work. The consideration approximated the fair value of the incremental interest in the net assets acquired.

Regional trade houses

Commencing in 1999 the Group has been participating in the creation of regional trade houses involved in the distribution of gas in Russia. In 2002 the interest of the Group in the majority of such companies increased from 20% to 51% of their share capital and these companies were consolidated.

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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29 MINORITY INTEREST

	Year ended 31 December		
	2003	2002	2001
Minority interest at the beginning of the reporting period	10,177	17,387	11,921
Minority interest share of net profit of subsidiary undertakings	3,062	667	5,339
Net change in minority interest as a result of acquisitions (disposals)	1,554	(7,877)	127
Minority interest at the end of the reporting period	<u>14,793</u>	<u>10,177</u>	<u>17,387</u>

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”. In considering each possible related party relationship attention is directed to the substance of the relationship, not merely the legal form.

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding as of 31 December 2003, 2002 and 2001 are detailed below.

Government

The Government of the Russian Federation is the principal shareholder of the Group and directly owns approximately 38.37% of the issued shares of the Group. As of 31 December 2003, 2002 and 2001 the subsidiaries of the Group held 16.2%, 16.2% and 11.3% of OAO Gazprom shares, respectively, through which they are entitled to vote as owners. State representatives also have the majority of seats on the Board of 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 243, RR 143 and RR 84 for the years ended 31 December 2003, 2002 and 2001, 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.

Associated undertakings

Included within associated undertakings (see Note 11) is the loan receivable from EuRoPol GAZ S.A., in the amount of RR 24,056, RR 27,344 and RR 31,117 as of 31 December 2003, 2002 and 2001, respectively, issued by AB Gazprombank (ZAO), a subsidiary of the Group, at an interest rate of LIBOR + 2.6 %. Also included within associated undertakings as a component of the carrying amount are USD and euro denominated receivables from EuRoPol GAZ S.A. of RR 6,216, RR 8,555 and RR 12,495 as of 31 December 2003, 2002 and 2001, respectively.

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In millions of Russian Roubles)

30 RELATED PARTIES—(continued)

Associated undertakings include a loan receivable from WINGAS GmbH, in the amount of RR 14,830, RR 14,331 and RR 13,732 as of 31 December 2003, 2002 and 2001, respectively. The interest rates vary for different loan tranches. As of 31 December 2003 and 2002 the average effective interest rate for the loan receivable from WINGAS GmbH was 4.40% and 5.56%, respectively.

Included within accounts receivable are accounts receivable from Group associates (excluding EuRoPol GAZ S.A.) in the amount of RR 13,878, RR 15,767 and RR 17,571 as of 31 December 2003, 2002 and 2001, respectively.

During periods ended 31 December 2003, 2002 and 2001 the Group sold gas to its associated undertakings in the amount of RR 90,338, RR 69,275 and RR 84,821, respectively.

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 oil and gas prices. Gas prices per thousand cubic meters for such sales ranged from 80 to 147, from USD 67 to USD 131 and from USD 75 to USD 144 in the years ended 31 December 2003, 2002 and 2001, 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 in the years ended 31 December 2003, 2002 and 2001.

The Group's impairment provision on accounts receivable included RR 16,721, RR 14,914 and RR 14,378 in respect of amounts due from AO Moldovagaz as of 31 December 2003, 2002 and 2001, respectively.

In 2003 and 2002 the Group purchased gas from ZAO KazRosGaz for RR 4,154 at USD 30 per mcm and RR 140 at USD 28 per mcm. In 2001 no gas was purchased from ZAO KazRosGaz.

In addition, the Group purchased gas transportation services from certain of the associated undertakings, principally EuRoPol GAZ S.A., which amounted to RR 20,423, RR 12,419 and RR 10,098 for the years ended 31 December 2003, 2002 and 2001, 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 3,590, RR 1,783 and nil as of 31 December 2003, 2002 and 2001, respectively.

As of 31 December 2001, the Group had accounts payable for the contribution to charter capital due to ZAO Armrosgazprom of USD 126 million (RR 3,798). The Group settled the accounts payable in October 2002.

ОАО АК Сибур

A substantial portion of ОАО АК Сибур's transactions were executed with related parties. Prior to acquisition of additional interests in a number of these companies in 2003, ОАО АК Сибур's related party transactions were mainly with the then associated undertakings (see Note 28):

ОАО Омскшина	ОАО Voltair-Prom
ОАО Сибур-Нeftekhim	ОАО Voltair
ОАО Сибур-Тyumen	ОАО Tomsky NKhZ
ОАО Tobolsky NKhK	ОАО Voronezhsyntezkauchuk
ООО Togliatti-Kauchuk	ОАО Yaroslavskiy Shinniy Zavod

OA O GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In millions of Russian Roubles)

30 RELATED PARTIES—(continued)

The table below presents summarised financial information of OAO AK Sibur's and its subsidiaries for the years ended 31 December 2002 and 2001, after Group intercompany eliminations and before adjustments for minority interests:

	Year ended 31 December	
	2002	2001
Current assets	15,651	23,141
Non-current assets	17,870	7,679
Current liabilities	(27,978)	(46,068)
Non-current liabilities	(24,569)	(4,950)
	(19,026)	(20,198)
 Sales	 36,047	 57,208
Operating expenses	(31,191)	(66,695)
Net loss	<u>(3,732)</u>	<u>(23,703)</u>

OAO Sroytransgaz

OAO Sroytransgaz 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 Sroytransgaz 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 2003, 2002 and 2001 transactions with OAO Sroytransgaz were entered into under 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 Sroytransgaz.

OAO Sroytransgaz rendered construction services for the Group in the amounts of RR 30,842, RR 35,649 and RR 39,963 for the years ended 31 December 2003, 2002 and 2001, respectively. As of 31 December 2003, 2002 and 2001, the Group had advances and receivables due from OAO Sroytransgaz in the amounts of RR 2,344, RR 7,402 and RR 8,507, respectively. As of 31 December 2003, 2002 and 2001, the Group had accounts payable to OAO Sroytransgaz for construction contracts of RR 11,102, RR 10,911 and RR 18,610, respectively. As of 31 December 2001 other long-term assets included amounts due from OAO Sroytransgaz in connection with finance arrangements for construction for the Group undertaken by OAO Sroytransgaz in amount of RR 4,050.

AEB

In 2002 and 2001 the Group obtained short-term loans from AEB, an associated undertaking of AB Gazprombank (ZAO), for the total amount of RR 4,530 (9.0% interest) and RR 3,385 (14.8% interest), respectively. No loans were obtained by the Group from AEB in 2003.

OOO Interprokom

During the years ended 31 December 2003, 2002 and 2001, respectively, transactions with OOO Interprokom were entered into under contracts which had been executed by certain prior members of the Board of Directors and a 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 4,260, RR 8,021 and RR 11,611 of equipment for the years ended 31 December 2003, 2002 and 2001, respectively. As of 31 December 2003, 2002 and 2001, the Group had advances and

ОАО ГАЗПРОМ
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30 RELATED PARTIES—(continued)

receivables due from ООО Interprokom in the amount of RR 3,891, RR 877 and RR 650, respectively. Commission paid to ООО Interprokom amounted to RR 60, RR 113 and RR 107 for the years ended 31 December 2003, 2002 and 2001, respectively. As of 31 December 2003, 2002 and 2001, the Group had accounts payable to ООО Interprokom in respect of equipment supplies of RR 1,884, RR 5,265 and RR 8,708, respectively.

AB Gazprombank (ZAO), the Group's principal banking subsidiary, had outstanding import letters of credit issued on behalf of ООО Interprokom and sub-contractors of ООО Interprokom in the amount of RR 1,159, RR 6,982 and RR 9,751 as of 31 December 2003, 2002 and 2001, respectively. These import letters of credit are issued to third party suppliers in connection with the purchase of equipment by ООО 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.

Taxation

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

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

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

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31 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS—(continued)

evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities which might arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation or regulation 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.

Financial guarantees

	31 December		
	2003	2002	2001
Outstanding guarantees issued on behalf of:			
BSPC	36,170	37,258	21,890
Interconnector (UK) Limited	32,400	34,963	38,167
Eural Trans Gas	6,274	—	—
NAK Naftogaz Ukraine	2,945	—	—
Albustan Investments Ltd	2,396	2,843	—
Itera Group companies	1,731	3,088	4,486
Other	7,848	9,555	15,741
	<u>89,764</u>	<u>87,707</u>	<u>80,284</u>

Included in financial guarantees are amounts denominated in USD of USD 2,993 million, USD 2,634 million and USD 2,119 million as of 31 December 2003, 2002 and 2001, 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 2003, 2002 and 2001, BSPC had borrowed RR 36,170 (USD 1,228 million), RR 37,258 (USD 1,172 million) and RR 21,890 (USD 631 million), respectively, of these credit facilities which were guaranteed by the Group, pursuant to its obligation.

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 August 2003 credit facilities in the amount of USD 227 million were provided to Eural Trans Gas by Vnesheconombank and guaranteed by the Group. The guarantee extends through December 2007. The credit facilities are for the purchase of natural gas in Central Asia which is then sold to the Group. Guarantees to NAK Naftogaz Ukraine in the amount of USD 100 million were also provided by the Group in connection with purchases of natural gas from Central Asia.

Line “Other” includes mainly guarantees issued by subsidiaries under contracts for purchasing equipment, construction and installation works. As of 31 December 2003, 2002 and 2001 this balance includes guarantees issued by OAO AK Sibur to third parties of RR 83, RR 2,572 and RR 7,723, respectively.

Capital commitments

In the normal course of business, the Group has entered into contracts for the purchase of property, plant and equipment. The Board has approved a capital expenditure budget for 2004 of RR 192,340.

ОАО ГАЗПРОМ
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31 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS—(continued)

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 2003 and 2002 no loss is expected to result from these long-term commitments.

Loan commitments

As of 31 December 2003, 2002 and 2001 the Group banking subsidiary AB Gazprombank (ZAO) had undrawn loan commitments related to credit facilities issued to external customers in amounts of RR 13,520, RR 6,959 and RR 2,804, 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 variable (LIBOR referenced) rates. Currently the Group does not operate a formal management programme focusing on the unpredictability of financial markets or seeking to minimize potential adverse effects on the financial performance of the Group. The Group has no significant interest-bearing assets.

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

OAo GAZPROM

NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(In millions of Russian Roubles)

32 FINANCIAL RISK FACTORS—(continued)

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

Financial investments

In March 2004, the Group acquired a 34% interest in Lietuvos Dujos from the State Property Fund of Lithuanian Republic for RR 1,020 (USD 1 is equivalent to 2.78 Lithuanian Litas). Management have assessed that the fair value of consideration paid approximated the fair value of the underlying net assets received.

In March 2004, ZMB, a Group subsidiary in Germany, acquired a 40.0% interest in Bosphorus Gas Corporation AS for USD 596 thousand paid in cash. Management have assessed that the fair value of consideration paid approximated the fair value of the underlying net assets received. Bosphorus Gas Corporation AS has operations in the distribution of natural gas in Turkey.

In March 2004 the Group has acquired a 20% interest in Odex Exploration Ltd. (Cyprus) for USD 10,455 thousand. The company is involved in exploration and development of oil and gas fields in North Africa. Management have assessed that the fair value of consideration paid approximated the fair value of the underlying net assets received.

Following the acquisition of additional interests in a number of Russian petrochemical companies (see Note 28) in November 2003 the Group signed an agreement with ZAO Gazonefteknimicheskaya kompania to acquire a 14.23% interest in OAO AK Sibur which was transferred to the Group in April 2004. The nominal value of long-term promissory notes issued by a subsidiary of the Group in connection with this transaction was RR 669 as of 31 December 2003. As a result of this transaction the Group increased its controlling interest in OAO AK Sibur from 78.1% to 92.3%. The Group management has not completed a formal assessment of goodwill, if any, arising on this transaction.

In March 2004 the Group's production subsidiary OAO Vostokgazprom issued 2,275,000 additional ordinary shares. All of the new shares were purchased by Gazprom for RR 2,275 paid in cash. The issue was registered by the Federal Commission for Securities Markets in May 2004. As a result the ownership interest of Gazprom increased from 83.8% to 99.9%.

In June 2004 the Group acquired an additional 12.8% interest in ZAO Stimul. As a result of this transaction the Group increased its interest in the charter capital of ZAO Stimul from 38.2% to 51.0%. 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. Group management has not completed a formal assessment of goodwill, if any, arising on this transaction.

Borrowings

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

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

In April 2004 AB Gazprombank (ZAO) received USD 275 million of borrowings under a one-year syndicated loan with ABN Amro and Deutsche Bank AG at an interest rate of LIBOR + 1.8%. AB Gazprombank (ZAO) has an option to extended the loan for one year.

In April 2004 the Group issued USD 1,200 million of Loan Participation Notes due 2034 at an interest rate of 8.625%, and have a put option on 28 April 2014. The Notes were issued under the USD 5,000 million Programme for the Issuance of Loan Participation Notes established on 22 September 2003.

ОАО ГАЗПРОМ
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In millions of Russian Roubles)

33 POST BALANCE SHEET EVENTS—(continued)

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

Taxation

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

- excise tax on natural gas (produced after 1 January 2004) abolished;
- export duty on natural gas increased from 5% to 30%;
- VAT rate reduced from 20% to 18%;
- natural resources production tax changed from 16.5% of the value of 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);
- maximum property tax increased from 2% to 2.2%.

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

The Company may be contacted at its registered office:

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APPENDIX A — DEGOLYER AND MACNAUGHTON LETTER

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July 15, 2004

OAOGazprom
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Russia

Gentlemen:

DeGolyer and MacNaughton has prepared estimates, as of December 31, 2003, of the extent and value of the proved and probable natural gas, oil, condensate, gas liquids, and sulfur reserves of certain fields in Russia owned or controlled by OAOGazprom (Gazprom). These estimates will be presented in forthcoming reports being prepared for Gazprom by DeGolyer and MacNaughton listed in Attachment I, to this letter and are referred to collectively as "the Reports". The 21 fields evaluated are located in western Siberia and the Volga-Ural Province of Russia and include the following:

Astrakhan	Urengoi Oil
Bovanenko	Urengoi (Achimov)
Gubkinsk	Viengapursk
Kharasevai	West Tarkosalinsk
Komsomolsk	Yamburg
Medvezhye	Yamsovieyskoye
North Urengoi	Yen-Yakha
Novy Port	Yeti-Purovskoye
Orenburg	Yubileyne
Urengoi	Yuzhno Russkoye
	Zapolarnoye

The estimated proved and probable gas, oil, condensate, gas liquids, and sulfur reserves owned or controlled by Gazprom, as of December 31, 2003, in the fields evaluated in the Reports, expressed in millions of cubic feet (10^6ft^3) and millions of cubic meters (10^6m^3), or thousands of barrels (10^3bbl) and thousands of metric tons (10^3mt), or thousands of U.S. tons (10^3U.S.t) and thousands of metric tons (10^3mt) are summarized below:

	English Units		
	Gazprom Separator Gas		
	Total Proved (10 ⁶ ft ³)	Probable (10 ⁶ ft ³)	Proved Plus Probable (10 ⁶ ft ³)
Astrakhan	6,718,616	1,515,817	8,224,433
Bovanenko	115,483,915	10,289,282	125,773,197
Gubkinsk	10,626,184	136,668	10,762,852
Kharasevai	38,201,291	10,688,691	48,889,982
Komsomolsk	14,874,186	283,224	15,157,410
Medvezhye	10,938,366	788,223	11,726,589
North Urengoi	7,172,763	1,615,999	8,788,762
Novy Port	0	6,867,644	6,867,644
Orenburg	12,623,229	619,419	13,242,648
Urengoi	89,099,265	3,485,912	92,585,177
Urengoi (Achimov)	20,098,638	11,285,156	31,383,794
Urengoi (Oil)	19,776	38,493	58,269
Viengapursk	987,398	0	987,398
West Tarkosalinsk	6,689,411	110,605	6,800,016
Yamburg	98,516,982	10,774,153	109,291,135
Yamsovieyskoye	13,477,138	199,174	13,676,312
Yen-Yakha	5,936,396	491,227	6,427,623
Yeti-Purovskoye	10,562,618	116,185	10,678,803
Yubileyne	9,123,192	156,091	9,279,283
Yuzhno Russkoye	20,472,974	224,954	20,697,928
Zapolarnoye	95,719,001	5,634,455	101,353,456
Total	587,341,339	65,311,372	652,652,711

Notes:

1. Probable reserves have not been adjusted for risk.
2. Reserves estimates of the Gubkinsk field include those reserves attributable to the 49-percent interest in the field not owned by Gazprom.
3. OAO Severneftegazprom owns the license area of the Yuzhno Russkoye field. Gazprom owns 100 percent of OAO Severneftegazprom.

	Metric Units		
	Gazprom Separator Gas		
	Total Proved (10 ⁶ m ³)	Probable (10 ⁶ m ³)	Proved Plus Probable (10 ⁶ m ³)
Astrakhan	190,250	42,640	232,890
Bovanenko	3,270,140	291,360	3,561,500
Gubkinsk	300,900	3,870	304,770
Kharasevai	1,081,740	302,670	1,384,410
Komsomolsk	421,190	8,020	429,210
Medvezhye	309,740	22,320	332,060
North Urengoi	203,110	45,760	248,870
Novy Port	0	194,470	194,470
Orenburg	357,450	17,540	374,990
Urengoi	2,523,010	98,710	2,621,720
Urengoi (Achimov)	569,130	319,560	888,690
Urengoi (Oil)	0,560	1,090	1,650
Viengapursk	27,960	0	27,960
West Tarkosalinsk	189,423	3,132	192,555
Yamburg	2,789,690	305,090	3,094,780
Yamsovieyskoye	381,630	5,640	387,270
Yen-Yakha	168,100	13,910	182,010
Yeti-Purovskoye	299,100	3,290	302,390
Yubileyne	258,340	4,420	262,760
Yuzhno Russkoye	579,730	6,370	586,100
Zapolarnoye	2,710,460	159,550	2,870,010
Total	16,631,653	1,849,412	18,481,065

Notes:

1. Probable reserves have not been adjusted for risk.
2. Reserves estimates of the Gubkinsk field include those reserves attributable to the 49-percent interest in the field not owned by Gazprom.
3. OAO Severneftegazprom owns the license area of the Yuzhno Russkoye field. Gazprom owns 100 percent of OAO Severneftegazprom.

	Gazprom Condensate and Gas Liquids	
	English Units	Metric Units
	(10³bbl)	(10³mt)
Total Proved	3,472,173	423,830
Probable	1,267,063	154,090
Proved Plus Probable	4,739,236	577,920

Note: Probable reserves have not been adjusted for risk.

	Gazprom Oil	
	English Units	Metric Units
	(10³bbl)	(10³mt)
Total Proved	64,146	8,440
Probable	807,600	98,840
Proved Plus Probable	871,746	107,280

Note: Probable reserves have not been adjusted for risk.

The Gazprom future net revenue and present worth to be derived from the production and sale of the proved and proved-plus-probable reserves owned or controlled by Gazprom in the fields evaluated in the Reports, as of December 31, 2003, are estimated below, expressed in thousands of United States dollars (10³U.S.\$). Values were estimated in United States dollars (U.S.\$) using the exchange rate effective December 31, 2003, which was Russian Rubles 29.4545 per U.S.\$1.00.

Field	Future Net Revenue		Present Worth at 10%	
	Total	Proved Plus	Total	Proved Plus
	Proved	Probable	Proved	Probable
	(10 ³ U.S.\$)	(10 ³ U.S.\$)	(10 ³ U.S.\$)	(10 ³ U.S.\$)
Astrakhan	7,016,642	8,221,027	2,488,421	2,537,671
Bovanenka	65,975,760	72,554,342	6,547,357	9,821,234
Gubkinsk	4,280,543	4,328,567	1,747,619	1,748,306
Kharasevai	23,370,454	30,698,189	3,121,878	3,372,935
Komsomolsk	5,245,734	5,343,382	2,672,879	2,707,561
Medvezhye	3,988,343	4,273,653	1,972,691	2,048,832
North Urengoi	2,622,401	3,225,293	1,169,678	1,357,413
Novy Port	0	9,513,592	0	1,026,124
Orenburg	2,480,145	2,580,263	902,430	1,009,980
Urengoi	34,453,139	35,977,852	12,583,738	12,308,604
Urengoi (Achimov)	18,464,546	29,241,410	2,248,645	3,025,119
Urengoi (Oil)	37,593	268,326	19,553	95,170
Viengapursk	289,003	289,003	164,862	164,862
West Tarkosalinsk	2,312,194	2,348,032	1,192,300	1,197,091
Yamburg	34,083,935	37,810,866	12,521,309	12,493,860
Yamsovieyskoye	5,890,618	5,980,157	2,743,225	2,753,893
Yen-Yakha	4,951,821	5,411,112	1,411,369	1,474,253
Yeti-Purovskoye	3,589,995	3,630,060	1,233,759	1,239,352
Yubileyne	3,936,775	4,001,625	2,128,761	2,156,693
Yuzhno Russkoye	8,215,733	8,305,838	1,726,942	1,735,832
Zapolarnoye	38,514,333	41,516,088	13,467,885	13,770,326
Total	269,719,707	315,518,677	75,065,301	78,045,111

Notes:

1. There has been no adjustment applied to the value of probable reserves to account for risk.
2. Future net revenue and present worth include the value of sulfur reserves from the Astrakhan field, as shown in Attachment II.
3. The values shown for the Gubkinsk field and total include revenues attributable to the 49-percent interest in the field not owned by Gazprom.
4. OAO Severneftegazprom owns the license area of the Yuzhno Russkoye field. Gazprom owns 100 percent of OAO Severneftegazprom.
5. In preparation of these estimates, future income tax expenses have been taken into account at the field level and for transportation of gas for export.

OAQ Gazprom
July 15, 2004
Page 6

The estimates of reserves, future net revenue, and present worth of future net revenue summarized are subject to the definitions, assumptions, qualifications, explanations, and conclusions expressed in the Reports. These summaries should be considered in view of the conditions of the Reports and are susceptible to being misunderstood apart from the Reports.

Very truly yours,



DeGolyer and MacNaughton
DeGOLYER and MacNAUGHTON

Attachments

Attachment I

GAZPROM REPORTS by DeGOLYER and MacNAUGHTON

“Appraisal Report on Gas, Gas Liquids, and Sulfur Reserves owned by OAO Gazprom in the Astrakhan Field, Southeastern Europe, Russia, as of December 31, 2003, Annual Update, Confidential”

“Appraisal Report on Gas and Condensate Reserves owned by OAO Gazprom in the Bovanenken Field, Western Siberia, as of December 31, 2003, Annual Update, Confidential”

“Appraisal Report on Gas and Condensate Reserves owned by OAO Gazprom in the Gubkinsk Field, Western Siberia, as of December 31, 2003, Consolidated Annual Update, Confidential”

“Appraisal Report on Gas and Condensate Reserves owned by OAO Gazprom in the Kharasevai Field, Western Siberia, as of December 31, 2003, Annual Update, Confidential”

“Appraisal Report on Gas and Condensate Reserves owned by OAO Gazprom in the Komsomolsk Field, Western Siberia, as of December 31, 2003, Annual Update, Confidential”

“Appraisal Report on Gas and Condensate Reserves owned by OAO Gazprom in the Medvezhye Field, Western Siberia, as of December 31, 2003, Annual Update, Confidential”

“Appraisal Report on Gas, Oil, and Condensate Reserves owned by OAO Gazprom in the Novy Port Field, Western Siberia, as of December 31, 2003, Annual Update, Confidential”

“Appraisal Report on Gas and Condensate Reserves owned by OAO Gazprom in the North Urengoi Field, Western Siberia, as of December 31, 2003, Annual Update, Confidential”

“Appraisal Report on Gas and Condensate Reserves owned by OAO Gazprom in the Orenburg Field, Southeastern Europe, Russia, as of December 31, 2003, Annual Update, Confidential”

“Appraisal Report on Gas and Gas Liquids Reserves owned by OAO Gazprom in the Urengoi Field, Western Siberia, as of December 31, 2003, Annual Update, Confidential”

“Appraisal Report on Gas and Gas Liquids Reserves owned by OAO Gazprom in the Urengoi (Achimov) Field, Western Siberia, as of December 31, 2003, Annual Update, Confidential”

“Appraisal Report on Oil and Solution Gas Reserves owned by OAO Gazprom in the Urengoi Oil Field, Western Siberia, as of December 31, 2003, Annual Update, Confidential”

Attachment I – (Continued)

“Appraisal Report on Gas and Condensate Reserves owned by OAO Gazprom in the Viengapursk Field, Western Siberia, as of December 31, 2003, Annual Update, Confidential”

“Appraisal Report on Gas and Condensate Reserves owned by OAO Gazprom in the West Tarkosalinsk Field, Western Siberia, as of December 31, 2003, Annual Update, Confidential”

“Appraisal Report on Gas and Gas Liquids Reserves owned by OAO Gazprom in the Yamburg Field, Western Siberia, as of December 31, 2003, Annual Update, Confidential”

“Appraisal Report on Gas and Condensate Reserves owned by OAO Gazprom in the Yamsovieyskoye Field, Western Siberia, as of December 31, 2003, Annual Update, Confidential”

“Appraisal Report on Gas, Oil, and Gas Liquids Reserves owned by OAO Gazprom in the Yen-Yakha Field, Western Siberia, as of December 31, 2003, Annual Update, Confidential”

“Appraisal Report on Gas and Condensate Reserves owned by OAO Gazprom in the Yeti-Purovskoye Field, Western Siberia, as of December 31, 2003, Annual Update, Confidential”

“Appraisal Report on Gas and Condensate Reserves owned by OAO Gazprom in the Yubileyne Field, Western Siberia, as of December 31, 2003, Annual Update, Confidential”

“Appraisal Report on Gas and Condensate Reserves owned by OAO Gazprom in the Yuzhno Russkoye Field, Western Siberia, as of December 31, 2003, Annual Update, Confidential”

“Appraisal Report on Gas, Oil, and Gas Liquids Reserves owned by OAO Gazprom in the Zapolarnoye Field, Western Siberia, as of December 31, 2003, Annual Update, Confidential.”

Attachment II

ESTIMATES
Of
SULFUR RESERVES and REVENUE
owned by
OAO GAZPROM
as of
DECEMBER 31, 2003

	Gazprom Sulfur Reserves		Gazprom Sulfur Revenue	
	English Units (10³U.S.t)	Metric Units (10³mt)	Future Net Revenue (10³U.S.\$)	Present Worth @ 10% (10³U.S.\$)
Total Proved	142,573	129,340	628,857	215,891
Probable	31,967	29,000	141,813	5,057
Proved plus Probable	174,540	158,340	770,670	220,948

Notes:

1. Sulfur reserves are expressed as thousands of U.S. tons (10³U.S.t) and thousands of metric tons (10³mt).
2. All sulfur reserves are located in the Astrakhan field.
3. Probable reserves and associated revenue have not been adjusted for risk.

APPENDIX B—INDEPENDENT CONSULTANT'S REPORT

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THE EUROPEAN GAS MARKET

Report

by

GAS STRATEGIES

Peter Flowerday
Harry Cavill
Richard Towers
Jan Bruil

9th July 2004

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Glossary of Terms Used

bbl	Barrel (of oil)
Bcm	Billion cubic metres of gas
Billion	1000 Million
CAGR	Compound Annual Growth Rate
CCGT	Combined Cycle Gas Turbine
CHP	Combined Heat and Power
EU15	Austria, Belgium, Denmark Finland , France, Germany, Greece, Ireland , Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, UK.
EU25	The EU15 countries plus Poland, the Czech and Slovak Republics, Hungary, Romania, Bulgaria, the three Baltic States and Slovenia
GDP	Gross Domestic Product
IEA	International Energy Agency
LNG	Liquefied Natural Gas
MMBtu	Million Btu (British thermal unit) Equivalent to 37.6 cubic metres
MOU	Memorandum of Understanding
NBP	UK National Balancing Point
TOE	Tonne of oil equivalent = 1200 cubic metres of gas
TPA	Third Party Access
Trillion	1000 Billion

Overview

In connection with the offering by Gazprom of Structured Export Notes, Gas Strategies was asked to provide this report analysing the current and future dynamics of the European gas market. In particular we have been asked to concentrate on the target markets of Italy and the Netherlands because one nominated contract to each of these markets is being used as security.

This report places the target gas markets of Italy and the Netherlands in the context of gas supply and demand in a wider European area and identifies liberalisation, carbon emissions and security of supply concerns as major underlying drivers. It then provides an analysis of the supply and demand dynamics in the markets of Italy and the Netherlands before placing these in the context of an overview of supply and demand in that European area.

This report also reviews the pricing conventions currently adopted for European gas under long-term supply contracts and describes how border gas prices might develop in the longer term.

Gas Strategies has no material interest in the outcome of the proposed offering and has no relationship with Gazprom or the other parties involved in respect of the offering beyond the contract for the preparation of the report.

The independent market report which follows has been prepared by Gas Strategies Consulting Limited. Gas Strategies was founded in 1989 and today it is an internationally respected commercial gas consulting firm with a particular expertise in the European market. Since its inception Gas Strategies' work has focused on market research and consulting activities. In that connection Gas Strategies has worked extensively for the financial community and has acted as an independent market consultant to lenders to a number of European related gas projects, both pipeline and LNG.

This report contains a number of forward looking statements relating to the energy and specifically the gas sector in the European market. All forecasts of gas supply, demand and price are drawn from our existing data service, GasStrategiesOnline, which uses as its base data IEA energy balances for OECD countries. IEA energy balances, although not error-free, are, in our view, the most consistent set of data in the industry. In addition the report uses a number of other sources which have, in Gas Strategies' opinion, proven reliable over the years, notably the BP Energy Statistics, and OECD data.

Demand forecasts are based on a number of assumptions which are discussed in more detail within the body of the report; however all forecasts of macro-economic indicators such as GDP and population growth that inform our thinking are sourced from the OECD. Forecast assumptions are also developed through extensive research into each of the individual markets, collection of power project development plans, published forecasts of industrial output and published plans for gas network expansion. In addition, other forecasts of gas and electricity demand available in the public domain were assembled and used to verify our own conclusions.



This report is the result of a collective effort by several of Gas Strategies professionals. We believe that every care has been taken in the preparation of this report, and the developments of our forecasts contained in it, in accordance with industry standards. However, as in all aspects of gas industry analysis and evaluation, there are uncertainties inherent in the interpretation of certain data and therefore our conclusions only represent our best informed professional judgement.

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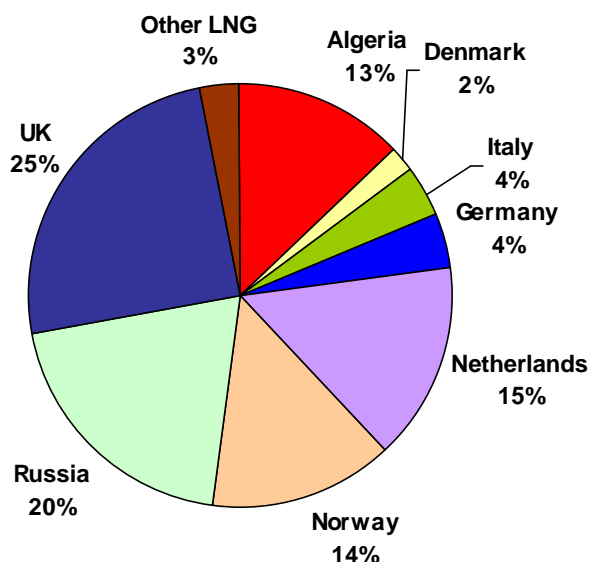
1. Overview of European Gas Market

1.1 Background to the EU15

1.1.1 Gas Supply

The modern gas industry in the EU 15 was founded on large indigenous reserves with an increasingly large import trade in gas. Indigenous reserves were located mainly in the giant Groningen Field in the Netherlands and in the North Sea – mainly the UK. These various sources are shown below:

Fig 1 European Gas Sources 2002 – Percentage of Total Supply by Volume

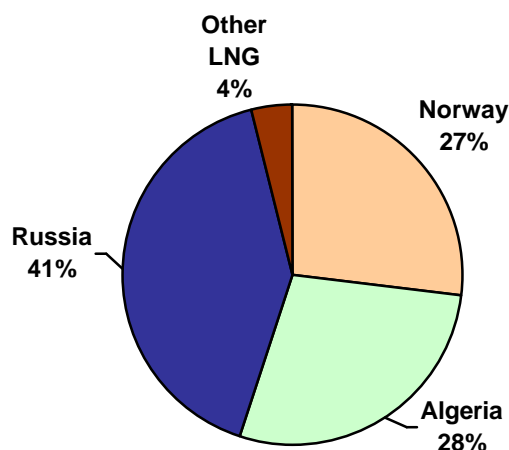


Source: BP Energy Statistics 2003

For consistency in this section the above breakdown of total supply volume is based upon BP Statistics. However, the percentage share shown for Russian Gas in 2002 is lower than that derived from the Cedigaz report “The 2003 Natural Gas Year in Review - CEDIGAZ First Estimate” (April 2004). Based upon Cedigaz statistics the Russian share would be 25.3%.

The European gas market is still characterised by large powerful producers (Gazprom, Sonatrach, Statoil/Norway) and equally powerful national utilities (Gasunie, Ruhrgas, Distrigas, Gaz de France and ENI).

Fig 2 European Gas Sources 2002 – Percentage of Imports by Volume



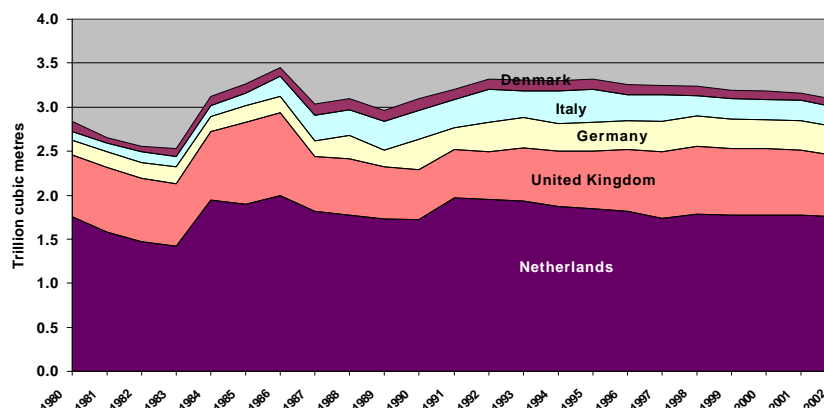
Source: BP Energy Statistics 2003

However, legislation has been introduced to reduce the power of these European utilities and to ensure that gas sales and transmission services are separated. In the UK the power of British Gas was significantly reduced first by corporate separation and then by de-merger. However, Centrica, the gas marketing arm of the old British Gas is still a significant, if not leading, player.

European production has been slowly declining and, based on current data relating to production and existing reserves, this trend is expected to continue¹. In the context of anticipated rising demand, therefore, an increasing proportion of gas supply will have to be imported. This expectation has raised security of supply issues, particularly when to date the imports of gas have been under the control of just three major suppliers, Gazprom, Sonatrach and Statoil. The following chart shows the profile of indigenous proven reserves in Europe since 1980. Gas Strategies' independent analysis confirms what most observers believe, namely, that the contribution from the UK will now begin to decline significantly. Dutch gas, based on the Groningen Field, is expected to remain at a state-imposed gas cap for some time and is expected to underpin the indigenous reserve base.

¹ According to Cedigaz in its report "The 2003 Natural Gas Year in Review - CEDIGAZ First Estimate" (April 2004) indigenous gas production increased in the year 2003 by 1.3%. Nevertheless in the longer term indigenous gas production will decline.

Fig 3 EU 15 Proven Gas Reserves 1980 to 2002



Proven gas reserves defined by BP as “those quantities that geological and engineering information indicate with reasonable certainty can be recovered in the future from known reservoirs under existing economic and operating conditions.”

Source: BP Energy Statistics 2003

1.1.2 Gas Demand

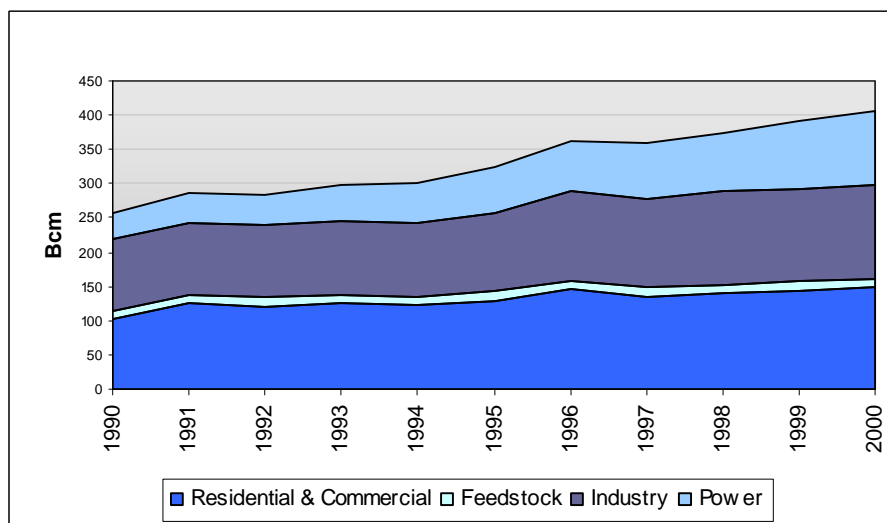
IEA statistics show that the EU15 gas demand increased at a 4.7% CAGR in the decade from 1990 to 2000. The power sector showed the largest growth, with a CAGR of 11% p.a. Industry & Feedstock grew at roughly the same level as EU15 GDP, with the Residential & Commercial sectors slightly higher as more and more countries have become connected to gas infrastructure.

Table 1 Growth in EU gas Demand 1990 to 2000

Bcm/year	1990	1995	2000	CAGR
EU15 Total Demand	255.8	325.8	404.9	4.7%
Power	37.3	68.2	106.1	11.0%
Industry	105.5	114.6	136.7	2.6%
Feedstock	10.1	13.6	13.1	2.6%
Residential & Commercial	102.8	129.4	149.1	3.8%

Source: IEA

Fig 4 EU Gas Demand Growth by Sector, 1990 to 2000



Source: IEA

1.2 Key drivers for change

1.2.1 EU Policies and Gas

Energy policy in the EU in recent years has focused on a number of key issues, namely market liberalisation and environmental concerns, with adherence to the Kyoto protocol as a cornerstone of environmental policy.

Nevertheless, in developing these policies, Member States and the Commission have recognised the importance of existing legacy arrangements and have put in place provisions to allow Member States to protect existing take-or-pay agreements. Clearly this is a desirable development for suppliers such as Gazprom which have large volumes of gas committed under existing take-or-pay arrangements. The Gas Directive 2003/55/EC includes the statement: “Long-term contracts will continue to be an important part of the gas supply of Member States and should be maintained as an option for gas supply undertakings in so far as they do not undermine the objectives of this Directive and are compatible with the Treaty, including competition rules. It is therefore necessary to take them into account in the planning of supply and transportation capacity of gas undertakings”.

At the same time, in an effort to ensure that market opening is Europe-wide, the Commission has put pressure on suppliers and buyers to remove end-user restrictions in contracts - the so-called Destination Clauses which tied the gas bought to the market it was originally bought for. This removal was achieved initially in the Gazprom contracts with ENI but, on the basis of a commercial relationship between Gasunie and Gazprom which focuses on the provision of market flexibility for both parties, it is believed there were no equivalent restrictions in the contract with Gasunie. In this contract the intention is to take gas into the Dutch market with a counter seasonal swing and redeliver to customers in other north-west European markets on a conventional winter peak swing basis. This arrangement is beneficial to Gazprom in that it makes use of spare summer capacity in existing pipelines, and Gasunie can manage the

increased summer supplies using the flexibility of Groningen production. New contracts for supply to the EU are no longer permitted to contain destination restrictions within the EU.

1.2.2 Liberalisation

In our opinion the UK can justly be considered the EU pioneer of liberalisation and the country with the most liberalised gas industry sector in Europe. However, the overall process took some 20 years before it became what is considered a fully liberalised market. Progress towards liberalisation is being made in other European countries and, by 2004, two Gas Directives dealing with the liberalisation process had been adopted by the European Council of Ministers, the provisions of which were required to be enacted into Member State law.

In June 1998, the European Parliament and the Council of Ministers adopted a Directive (98/30/EC) on common rules for the internal market in natural gas. It was widely recognised that this Directive was a weak compromise with a lengthy lead-time for implementation. Transparency in gas transportation was regarded as vital to the development of real competition, yet the Directive offered Member States the option of negotiated, as opposed to regulated, Third Party Access (TPA) to pipelines, which clearly perpetuated the power of the incumbents.

In June 2003, a Second Directive (2003/55/EC) was adopted which repealed Directive 98/30/EC and which, amongst other provisions, required that all sectors of the gas market should be legally open to competition by July 2007, that there should be mandatory regulated TPA, and that the transmission and sales arms of gas companies should be legally unbundled.

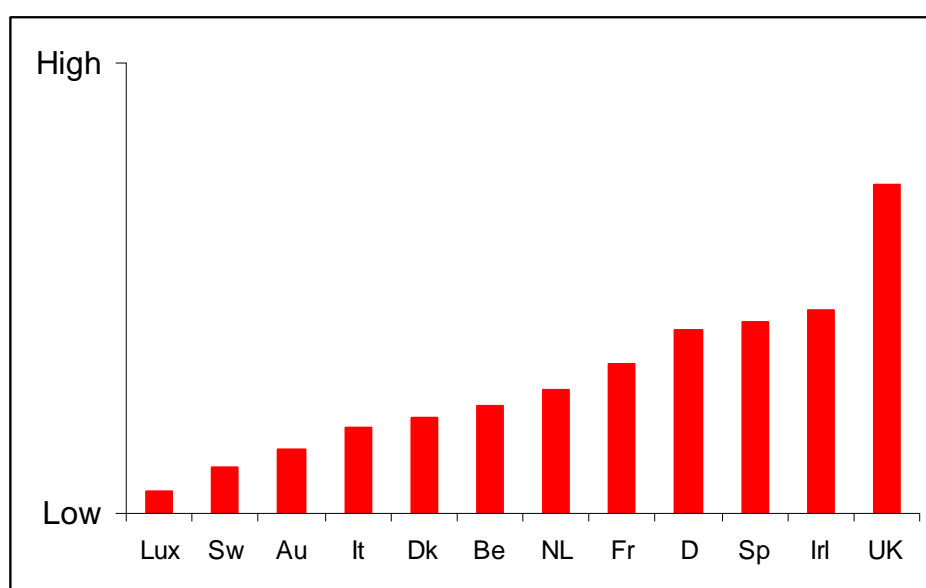
However, we expect that the liberalisation process outside the UK will be slow for the following reasons:

- Many continental gas markets have a structure by which national transmission franchises feed local distribution monopolies. This structure is more difficult to unravel than in the UK, where transmission and distribution were combined in one company.
- There is limited diversity of supply sources, even when indigenous production is taken into account.
- There is a strong emphasis on the public service commitment in Europe and this often dilutes the will to increase competition by way of more privatisation and less state control.
- The national utilities have seen the problems faced by British Gas in the 1990s as regards stranded take-or-pay². Continental gas agreements have added protection in their price review mechanisms, and utilities and governments seem intent on managing the liberalisation process in order to minimise an overhang of financial commitments related to the legacy gas contracts.

² During the early to mid 1990s, British Gas' share of the market fell rapidly, falling to 35% of the non-residential market in 1995. At the same time, a surplus of gas supply developed as a result of the number of new entrants acquiring supply and trying to gain market share. The surplus of gas resulted in a large drop in prices. This caused serious financial difficulties for British Gas, which was locked into a large number of long-term take-or-pay supply contracts at higher prices. Effectively, British Gas was forced to buy its way out of some of these contracts and renegotiate terms and prices on others.

Much effort has been put into measuring the development of gas and electricity market liberalisation in the EU and a number of benchmarking exercises have been conducted. The EU Commission publishes an annual benchmarking report, the latest of which was released in March 2004.³ Amongst other things, the report attempts to quantify the actual level of market opening in each of the gas markets of the European Union. The results of this analysis have been summarised in the chart shown below.

Fig 5 Index of Gas Market Competition within the European Union, April 2004



Source: Gas Strategies / European Commission Third Benchmarking Report

The chart takes four key measures from the benchmarking report which quantify competitive activity in each market. These are:

1. The market share of the top three suppliers;
2. The percentage of available gas controlled by largest company;
3. The percentage of large eligible users who switched over the course of 1 year; and
4. The percentage of small commercial / domestic users who have switched over the course of 1 year.

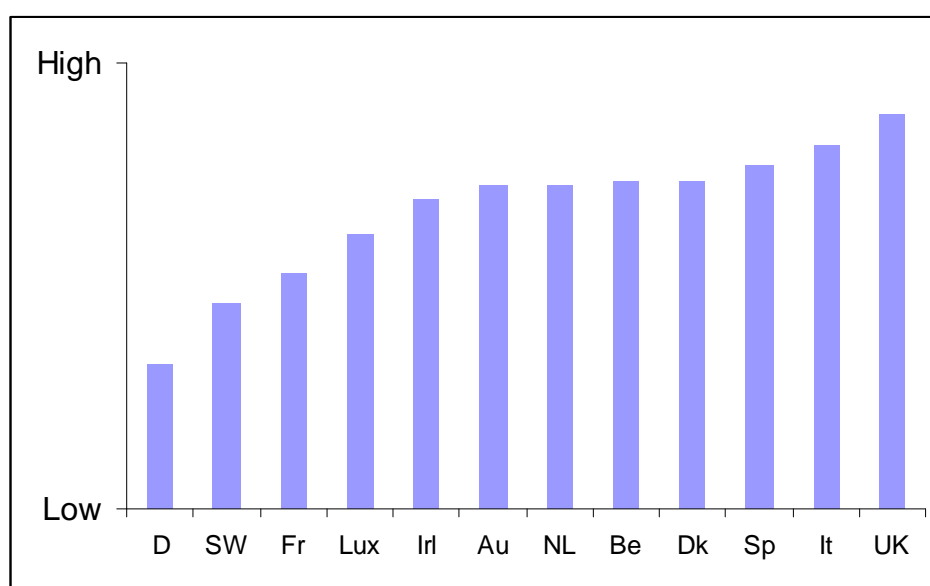
These indicators are given equal weightings and bring out some useful results even though the accuracy of the data used in such measurements, and especially its statistical soundness, may be questioned, because of the limited sampling pool. It is not a surprise that the UK comes out well ahead of the other markets, reflecting its position as a mature liberalised market in which competition is already well established. The other countries all lag well behind.

³ Third benchmarking report on the implementation of the internal electricity and gas market, Commission Of The European Communities Brussels, 1st March 2004.

Even though the sampling pool is certainly limited, of the other major countries, Spain ranks highest, with Germany and France also surprisingly good performers. It must be noted, however, that this analysis presents some problems in assessing competitive activity, in particular, for Germany and France, and as such it is subject to different interpretations. Neither the German nor the French market can be regarded as highly competitive. Germany scores well because it has a number of large regionally dominant players who have traditionally not competed. However, their existence means that Germany scores well on the first two indicators. France scores well on switching of eligible consumers, but, again, this is more a reflection of the very limited number of consumers eligible to choose their supplier under the French system than a measure of active competition.

If the countries are ranked on the basis of the legislative and regulatory regime, a slightly different picture emerges, although again the measurement methods and criteria are subject to subjective interpretation.

Fig 6 Ranking of Market Opening by Key Indicators, April 2004



Source: Gas Strategies / European Commission Third Benchmarking Report

This ranking takes seven key indicators which the Commission report measures for each country.

The indicators are:

- Declared Market Opening;
- Level of Unbundling of Transmission System Operator;
- Level of Unbundling of Distribution System Operator;
- Existence of a Regulator;
- Type of Tariff Structure;
- Flexibility of Capacity Booking in pipeline infrastructure; and
- Flexibility of Balancing Conditions.

This analysis indicates again that the UK is the most liberalised market. Spain and Italy trail behind, with the bulk of the countries in the middle and Germany, France and Sweden with the least conducive regimes to support competition.

One sign that the process could be gaining momentum will be the development of trading/pricing hubs. These have been slow to develop and those which have been attempted outside the UK have low liquidity. No hub matches the UK hub (the 'NBP'), which is the only truly liquid spot trading hub in the only liberalised European market.

The progress of liberalisation may have an effect on price in the market and volume of demand. The previously mentioned limited data indicates that it is usually, but not always, the case that a liberalised market based upon a liquid trading hub will experience an initial softening of prices as gas contracts decouple from oil indicators. Softening prices may be expected to stimulate demand, most notably in the power market where substitution for oil and coal could gather pace. The process of liberalisation is however not so far advanced that we can estimate the timing of this price outcome with any precision.

1.2.3 Environment

The European Union (EU) ratified the Kyoto Protocol on 31 May 2002, which commits the EU to reducing greenhouse gas (GHG) emissions by 8% in 2010 (2008-2012) from a base line of calendar year 1990. The Protocol itself will not come into international force until countries representing 55% of global emissions ratify the treaty.

In practice, in our view, this means that the Protocol will not come into effect until Russia ratifies it. There have been reports in the press that Russia has officially refused to ratify the protocol. Regardless of this, and despite some doubts in some parts of the European Commission and in industry, the EC President Romano Prodi recently affirmed the EU's commitment to the Protocol. Some countries have targeted higher reductions, e.g. the UK has a target of a 12.5% reduction by 2010.

For the energy industry, including the gas industry, the main issue is carbon dioxide (CO₂) emissions, which comprise about 85% of total GHG emissions. The EU has initiated an Emissions Trading System (ETS) to commence in 2005. Work is being conducted to make this system compatible with Kyoto Protocol terms for recognising emission reductions and the related emission credits allowed.

Under the EU-ETS scheme, energy intensive installations in certain industry sectors (power generation, oil refining and other industrial processes) will be subjected to absolute emission caps in terms of tons of CO₂ equivalent.

Developments in the power generation sector are expected to have a direct impact on the natural gas market. Gas is already the fuel of choice for many power generators in Europe due to the "three Es", namely - Efficiency (up to 60% thermal efficiency in converting gas inputs to electricity output), Economy (low capex and opex), and Environment (low emissions), on all of which, gas on average fares better than other energy sources. Any increase in the competitiveness of gas as a result of the relative change in power generation costs due to emissions compliance and the cost/price of emissions credit or controls would be expected to further increase its attractiveness against coal, for example.

In respect of one of the factors, environmental efficiency, the table below shows the approximate emissions from generating one unit of power.

Table 2 Approximate Emissions from Power Stations

Source	Unit Emissions kg CO ₂ /kWh
Lignite/Peat	1.6
Coal	1.0
Gas	0.4
Nuclear/Renewables	0.0

Source: Gas Strategies

We believe that if the future cost of reducing emissions were to rise and were manifested in a CO₂ per tonne price of more than 15-20 Euro/tonne, which is a common benchmark used by major utilities, then EU 15 gas demand could grow at a higher rate than that shown in our EU 15 demand projections shown in Table 7.

1.2.4 The Role of Nuclear Power Generation

Across Europe, there has been considerable attention given to the role of nuclear power generation in the energy mix. In most north-west European markets, governments have been reluctant to commit to construction of new nuclear stations. Consequently, as existing nuclear stations reach the end of their design life, the policy has been to retire them and replace the capacity with new supplies fuelled by non-nuclear sources. Indeed, since the late 1980s, only one government in the EU 15 has approved the construction of new nuclear generation capacity - in 2002 the Finnish Government approved a fifth reactor to be commissioned by 2009.

Although renewable energy sources are likely to fill some of the demand vacated by nuclear decommissioning, we believe that it is reasonable to expect that gas will take the largest share of new electricity generation capacity because of the perceived benefits outlined in 1.2.3 above. This trend is expected to be a key factor driving gas demand growth for power generation in north-west Europe.

1.2.5 Security of Supply

Declining indigenous reserves and production in the UK and elsewhere in the EU 15 have raised the importance of supply security. There is a debate in the EU about the funding of major infrastructure projects and whether the free competitive market is able to provide security or whether reliance on traditional take-or-pay agreements will continue to be necessary. It is possible that the need for major international infrastructure projects at some time in the future will run contrary to some aspects of the liberalisation objectives.

The European Commission is actively promoting and assisting the funding of major new projects to import gas from the Caspian area, Russia and North Africa. It is also supporting pipeline projects to increase the physical links between gas markets within the EU.

For example the EU funded INOGATE (Interstate Oil and Gas Transport to Europe), a programme established in the mid-1990s to provide technical assistance and, in some cases, investment financing, for strategic projects to import gas from the countries of the former Soviet Union. In 2001, the Commission also adopted a Communication on European Energy Infrastructure in recognition of the fact that, for the wider European electricity and gas market to function effectively, adequate infrastructure should exist linking the Member countries. A number of measures have been put forward, including a priority for trans-European network funding to certain projects identified as being priority projects of European interest.

Pipeline systems outside the EU are less susceptible to EU policies about open access and the need for competition. It is therefore less likely that spare capacity can be utilised and third party suppliers introduced outside the EU. This in turn means that more physical links will be required to bring diversification. To some extent, we believe that this should increase the power of the few traditional suppliers and their demands for long-term take-or-pay agreements.

Security of supplies from Russia has been raised as an issue from time to time. However, it should be noted that supply from Russia, with Gazprom as the supplier, has been considered reliable and the future security seems strengthened by the mutual dependence of Russia for revenue from the EU countries and the need of the EU for secure supplies. Gazprom's export pipeline infrastructure is mostly directed to the high-value markets in Europe and there is no incentive for it to build new facilities to reach new, lower value markets in the east at the expense of Europe.

2. Gas Supply and Demand Overview

In the sections below we provide an overview of Gas Strategies' Supply and Demand Forecasting Methodology, followed by an analysis of gas supply and demand in the two target markets for the two contracts which serve as security in the offering. We then look at the wider European context in which Russian gas will be competing through to 2020.

It is Gas Strategies' view that, despite current weaknesses in cross border infrastructure between gas markets, the EU will increasingly become an interconnected market in which surpluses of supply will tend to move towards market areas which are in deficit. Such cross border movement is currently not always easy to arrange, a fact which has as much to do with the predominant direction of gas flows across borders (where physical counterflow is not possible) and the power of national utilities as it has with the existence of cross border capacity. However, it is our view that, provided there is no long term surplus of contracted supply over demand on a European basis, the prospects for the continued revenue streams from contracted Russian gas are healthy, despite the fact that the individual target markets may look over-contracted in the medium term.

In order to summarise this, after a discussion of the target markets, we show in aggregate the supply and demand picture for the EU15 block of countries as a whole and then show in aggregate the north-west European markets which (together with Italy and the Netherlands), in our view, will be the most natural destination for Russian gas outside Central Europe, the Balkans and the Baltic countries. Essentially these markets (with the exception of Spain), together with the target markets, are the major contributors to European demand today and are expected to be leaders in driving demand growth through to 2020. The Spanish market is not expected to be immediately of direct relevance to Russian gas.

2.1 Supply and Demand Forecasting Methodology

In developing the gas demand forecasts shown below for the target markets and for both the EU15 and North-West European areas, Gas Strategies has applied the following methodology:

- Gas demand and gas consumption are not always the same - primarily when there are supply constraints which restrict market development. In most cases our demand forecasts assume that the two are the same and that there are no supply constraints. The only exceptions are in emerging markets, where there may be an implicit assumption that demand has been held back by lack of infrastructure and that demand growth will be led in the medium term by the rate of infrastructure developments. We believe that such disparities are largely irrelevant for the purposes of this report. Examples of such markets in the EU 15 are Greece, Spain, and Portugal.
- The demand projections for the EU15 and north-west Europe are aggregations of our central demand forecasts for each of the countries included in the market area. For the EU15, this includes Italy and the Netherlands.

- In forecasting demand in each country we take note of GDP projections published by the EU and OECD, amongst others. We also take into account the current level and historical growth of such benchmarks as the consumption of primary energy per capita, and within that the consumption per capita of gas and electricity. We also note the share taken by gas in the consumption of primary energy. This data is obtained from agencies such as the IEA and the EIA. These benchmarks, compared with EU and world averages, enable us to test our projections of likely growth patterns for the future.
- However, other factors have to be taken into account, such as the maturity of the market and extent of the gas infrastructure. For example, plans to increase pipeline reach in Greece and Spain are expected to result in growth rates in industry and residential use in those countries that exceed GDP projections in the medium term. On the other hand, in a mature market, we may forecast that gas usage in those markets will grow at rates which are less than GDP. We consider all such factors to the extent we think it reasonable on the basis of our market experience.
- For each country, we have developed an energy balance model for power generation which relies on forecast consumption of electricity. Growth rates in power consumption are taken from published data by major market participants such as ENEL or Snam Rete Gas in Italy or National Grid Transco in the UK. It is our opinion that data from such sources is sufficiently reliable to warrant its use in our analysis. Such forecasts are generally consistent with, but not exactly the same as, longer term GDP projections. Taking actual data for the fuel by fuel energy mix used in power generation as published by the IEA for each market, we then forecast trends for each fuel taking into account national targets (for example, in renewable energy) or policy announcements (for example, as already discussed, the decommissioning of nuclear power plants or the potential trends for power imports or exports). It is not always advisable to assume that targets will be met, and our analysis incorporates our assumptions on this, in particular with respect to renewable energy and in certain cases the decommissioning of nuclear power.
- After taking all the foregoing factors into consideration, we develop three sets of demand side projections - a high case, a central case and a low case. Although all three cases represent, in our judgement realistic scenarios, we believe, unless otherwise stated, that the central demand case represents the most reasonably likely scenario.
- On the gas supply side, we project, for each market, the contribution from indigenous production. For this purpose, we base our forecasts on the data in each market which, in our judgement, represents the most reliable source. In the case of the UK we have our own predictive model based upon historical data. For the Netherlands we rely on our understanding of national policy. For Italy we take a view based upon forecasts published by Edison and others. In other markets - primarily Denmark and Germany - we review forecasts by professional bodies and major market participants.
- As regards contracted gas, we rely on our knowledge of the quantity profiles and durations of current supply contracts to Europe from the various supply countries.
- After taking all of the foregoing factors into consideration, we develop a base case of supply side projections. Our base case assumes that existing supply contracts will not be renewed upon termination. In other words, the demand existing at the expiry of a current contract will be available not only to the current supplier, but any competitor who may

pitch for the business. As the European markets liberalise we might expect new sources to attempt to take market share from the three existing major suppliers - Gazprom, Statoil and Sonatrach - and indeed for the currently powerful national buyers not to be in the position to renew on the basis of whole market demand. Nevertheless, the existing sources are expected to be in a strong position when it comes to negotiating follow-on agreements and we might, therefore, expect some if not all to be renewed.

- To incorporate the possibility that existing contracts will be renewed or extended, we have developed an “adjusted” case of supply side projections, which assume the renewal of certain existing supply contracts. In developing this case Gas Strategies has considered each contract individually, applying its commercial judgement to decide which contracts will be extended or renewed, and which not.
- Similarly, in the base supply and central demand balances shown below we do not take into account the impact that new supplies and supply infrastructure may have on individual markets. Thus, for example, the aggregate balances for the EU 15 and north-west Europe include the growing deficit of supply to the UK caused by declining indigenous production. In practice, supply projects already promulgated but not yet representing firm supplies will, in our judgement, most likely lead to a supply/demand balance, and probably an exportable surplus, in the UK market by 2010.

3. The Target Markets

3.1 Italy

3.1.1 Structure of Demand

On the basis of IEA data, primary energy consumption in Italy in 2001 was 3.5 tonnes of oil equivalent (TOE) per head of population - slightly lower than the EU average of 4.3 TOE per head. In that year, gas penetration as a percentage of primary energy was 33%. This was reasonably equivalent to the level of gas penetration in the UK but significantly ahead of most other EU countries except for the Netherlands, where gas penetration was 43%. The average gas penetration for the EU 15 countries was 23%.

Like many European countries, Italy has suffered low GDP growth since 2000. In 2001 and 2002, GDP growth was less than 0.5%. However, since 1990, annual GDP growth averaged 1.7% p.a. to 2003, which was just 0.2% lower on average than the decade to 2000.

Italy has the third largest gas market in Europe, with a consumption of 71 Bcm in 2001, of which 23 Bcm was for power generation. From 1990 to 2001, natural gas consumption in Italy grew from approximately 47 Bcm/y to 71 Bcm/y. From 1996, much of that growth was attributable to the power generation sector. From 1990 to 2000, natural gas consumption increased at an average annual rate of 4%.

In 2001, power consumption in Italy was marginally under 5 MWh per head, which was just above the world average but significantly short of the European average of 6.2 MWh per head.

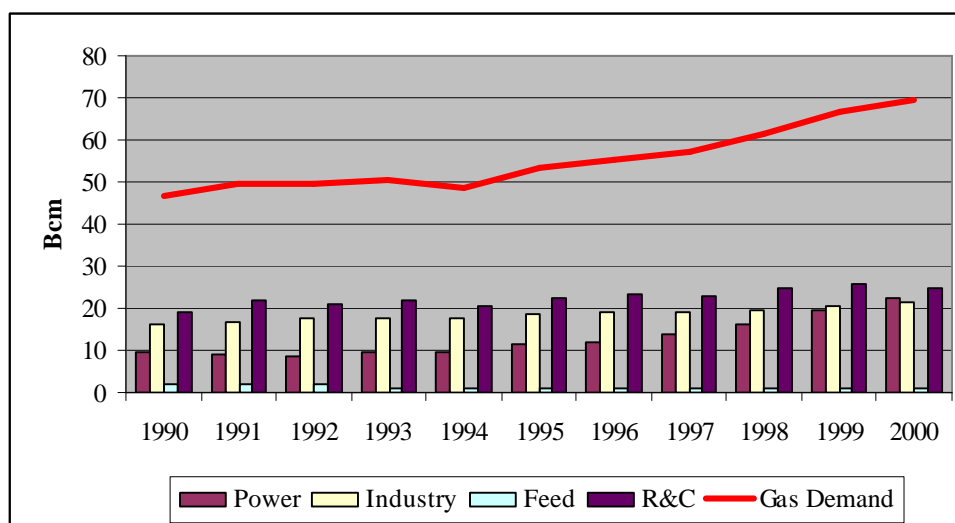
The IEA publication, “Energy Balances of OECD Countries”, dated July 2003, gives the latest available breakdown of gas demand in Italy - for 2001. This is shown below:

Table 3 Composition of Gas Demand in Italy, 2001

	Bcm/year	%
Power and Heat	22.9	32%
Industry	21.1	30%
Feedstock	1.2	2%
Residential & Commercial	25.9	36%
Total Demand	71.1	100%

Source: IEA

Fig 7 Historical Growth of the Italian Gas market 1990 to 2000



Source: IEA

3.1.2 Demand

Underlying our forecasts for gas demand in Italy are key assumptions about the growth in GDP and the consumption of primary energy. These are significant drivers of growth in gas demand and in the crucial power sector.

OECD forecasts (December 2003) for the Italian economy assume GDP growth rates of 1.6% and 2.1% for the years 2004 and 2005, respectively. Taken with historical data from the preceding three years (1.7%, 0.4% and 0.5% respectively), the average growth rate through to 2005 would be 1.6% p.a., although the OECD forecasts a growth rate of 2.1% in 2005.

Because energy usage in the Italian economy is slightly lower than the EU average (3.5 TOE as against 4.3 TOE), we expect energy usage in Italy to increase at a rate slightly in excess of GDP growth until the economy reaches a consumption of approximately 4 TOE per head of population - which we would expect to be in the period 2007 to 2010.

All forecasts for gas demand trends in Italy up to 2010 and beyond (including those in presentations to analysts in late 2003 by the three major gas market participants - ENI, ENEL and Edison) assume that a very high proportion of the growth will come from the power sector. As noted above, the per capita consumption of energy in Italy is slightly low compared with the rest of Europe. We expect, therefore, that the rate of power consumption in Italy will increase at a rate at least equal to GDP. This is in line with forecasts made in 2003 by SNAM Rete Gas and Edison (see below). Given the demands of Kyoto and the fact that indigenous production of coal is negligible, we expect that gas-fired power generation will supply most (but not all) of the need for additional capacity. Italy currently imports about 14% of its power consumption.

For our central demand case, we assume that the power sector demand will grow at a rate of 2% p.a. to 2010. Other forecasts are slightly higher than ours. For example, SNAM Rete Gas assumes 2.2% p.a. increase in electricity demand, Edison assumes 2.4% and we have seen assumptions as high as 3% p.a. For our central demand case, the growth in gas consumption in the non-power sectors is also assumed to be 2% p.a., or equivalent to GDP growth. After 2010, assume rates of growth to be 1.5% p.a. for power and 1% p.a. for the non-power sectors.

For our central demand case forecast (and in line with a SNAM presentation to analysts in November 2003 in which they stated that CCGT development was driving growth in the gas market) the power generation mix is dominated by the construction of new CCGTs and the switch to gas from oil in the large dual-fired generation population. We assume that oil usage will decline by 3% p.a. through to 2010 but level out thereafter. We also assume that coal will maintain its current level of burn, but new capacity utilising renewable sources (other than hydro) will grow, from a very low base, at 40% p.a. until 2005 and at rates of approximately 10% p.a. thereafter. All other trends in the power mix will, we believe, remain generally flat.

3.1.3 Contracted Gas Supply Compared with Demand

The following description of the supply position in Italy includes all contracts entered into between Gazprom and ENI - including the contract which serves as security in the offering.

A summary of the contracted supply to Italy as at March 2004 is shown below:

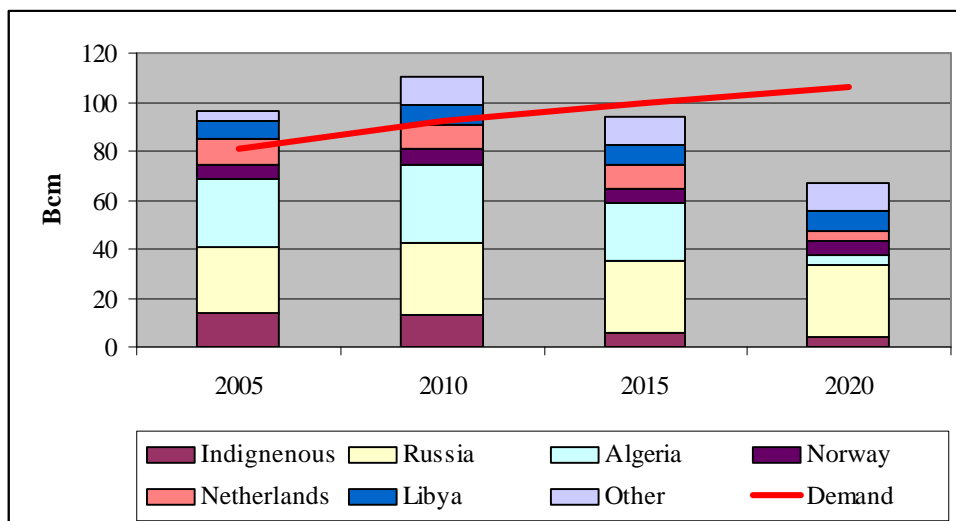
Table 4 Italy - Contracted Supply¹ and Indigenous Production

Country	Supplier	Buyer	Volume Bcm/year					Comment
			2000	2005	2010	2015	2020	
Indigenous			17.0	14.0	13.0	6.0	4.0	
Russia	Gazprom	ENI	18.5	21.5	24.5	24.5	24.5	
Russia	Gazprom/Promgas	Edison	1.0	2.0	2.0	2.0	2.0	
Russia	Gazprom	ENEL	0.0	3.0	3.0	3.0	3.0	MOU, not firm
Algeria	Sonatrach	ENI	2.0	2.0	2.0	2.0	0.0	LNG
Algeria	Sonatrach	ENI	19.5	19.5	19.5	14.6	0.0	
Algeria	Sonatrach	ENEL	4.0	6.0	6.0	2.0	0.0	
Algeria	Sonatrach	Mogest	0.0	0.5	0.5	0.5	0.0	
Algeria	Sonatrach	Edison	0.0	0.0	4.0	4.0	4.0	MOU, not firm
Qatar	RasGas	Edison	0.0	0.0	4.6	4.6	4.6	Subject to LNG terminal at Rovigo
Libya	ENI	Edison	0.0	4.0	4.0	4.0	4.0	
Libya	ENI	GdF	0.0	2.0	2.0	2.0	2.0	
Libya	ENI	Energia	0.0	2.0	2.0	2.0	2.0	
Norway	Statoil	ENI	0.0	3.6	3.6	6.0	6.0	
Norway	ENI	Edison	0.0	1.4	1.4	0.0	0.0	
Norway	ENI	Dalmine	0.0	1.0	1.0	0.0	0.0	
Netherlands	Gasunie	ENI	6.0	7.0	7.0	10.0	4.0	
Netherlands	ENI	Plurigas	0.0	3.0	3.0	0.0	0.0	
Nigeria	NLNG	ENEL	3.5	3.5	3.5	3.5	3.5	LNG/Pipeline swap
Egypt	Petronas/BG	ENEL	0.0	0.0	3.2	3.2	3.2	Subject to LNG terminal at Brindisi
Total Supply			71.5	96.1	109.8	93.9	66.8	
<i>Supply and Demand Balance</i>				15.3	17.6	-5.5	-39.2	
Central Demand ²				80.8	92.2	99.4	106.0	

¹Contracted imports reflects current supply contracts to Europe from the various supply countries. Apparent declines in volumes in later years reflect the assumption that contracts will terminate at the end of their term. In some cases, this is not a true reflection of reality in that many will be renewed and some have formal options for renewal. For the impact of the renewal of certain contracts on the supply and demand balance, see the discussion below of Italian adjusted supply in relation to demand.

² Gas Strategies Forecast
Source: Gas Strategies

Fig 8 Italian Base Supply vs Central Demand Case 2005 to 2020



Contracted imports reflects current supply contracts to Europe from the various supply countries. Apparent declines in volumes in later years reflect the assumption that contracts will terminate at the end of their term. In some cases, this is not a true reflection of reality in that many will be renewed and some have formal options for renewal. For the impact of the renewal of certain contracts on the supply and demand balance, see the discussion below of Italian adjusted supply in relation to demand.

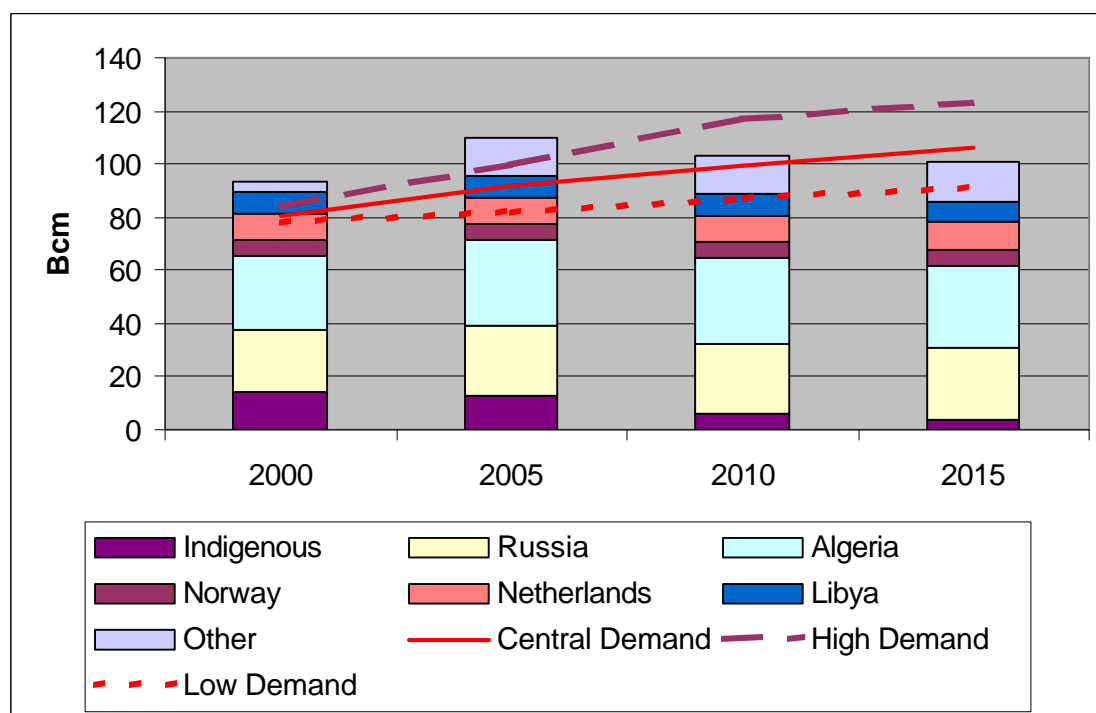
Source: Gas Strategies

ENI remains the market leader in the Italian market but is required by law (the Letta Decree) to reduce its share of sales to final consumers to 50% and to exercise control over no more than 61% of the gas supply to Italy by 2010. This, and the liberalisation of the power market, is expected to lead to the entry of more participants in the Italian gas market; and, in 2004, there were already eight companies (including ENI) which had signed long-term import agreements.

The contracted supply shown above is expected to lead to a sizeable surplus of gas in Italy until after 2010.

However, not all the supplies listed above are fully firm (even if they are subject to agreements) and the base assumption is that contracts will not continue after their termination date. Renewals are always possible depending on market conditions. The following Figure shows the affect on the gas supply and demand balance if the supply side is adjusted to take into account what Gas Strategies believes to be realistic assumptions regarding contract renewals and the likelihood of provisional contracts being confirmed.

Fig 9 Italian Adjusted Supply vs Central, High and Low Demand Cases, 2005 to 2020



Source: Gas Strategies

These conditions may fuel liberalisation and softening prices in Italy during the period 2005 to 2010 as suppliers look to sell surplus gas. However, gas contracts have inbuilt downward flexibility (in terms of contractual Take or Pay relief) and could be turned down by approximately 10% on average in any year. This turndown would represent 11 Bcm/y in 2010.

Crucially for this study Gas Strategies estimates (based upon information derived from ENI's presentations to analysts and our own supply and demand modelling) that, provided ENI effectively manages its obligations under the Letta Decree and thereby maximises its market share, it will have a maximum surplus in 2005 to 2010 of 5 Bcm/y to 7 Bcm/y. In this case, ENI indicated in its February 2004 presentation to analysts that it would, if necessary, divert some of its Russian gas (which is no longer contractually tied to the Italian market) into Germany or other markets westwards. In Germany, ENI has taken a 50% share in GVS - a distributor to markets in Bavaria - and may plan to place any surpluses in that region. In its February 2004 presentation ENI made, among others, the following two statements:

- "No risk on "Take or Pay" in 2004-7 period thanks to the expansion abroad and gas demand increase driven by power generation"
- "ENI is free to sell gas supplied by Gazprom outside Italy according to territorial restrictions clause cancellation (EU Commitments)".

3.2 The Netherlands

3.2.1 Structure of Demand

According to IEA Statistics the Netherlands is a large energy consumer, with gas being a major part of that consumption. In 2001, primary energy consumption was 6.6 tonnes of oil equivalent (TOE) per capita - 50% higher than the EU average. In that year, gas penetration as a percentage of primary energy was 43%. This was the highest level of gas penetration amongst the EU15 countries.

Like Italy, the Netherlands has suffered slowing GDP growth since 2000, but this was from a relatively high historic level. In 2002 (according to OECD 2003 figures), growth was 0.2% and was expected to show a negative rate in 2003. However, since 1990 annual GDP growth averaged 2.6% p.a. to 2003 – 0.7% lower on average than the decade to 2000.

Dutch gas demand was 43 Bcm in 2001, of which 15 Bcm, or 35%, was consumed in the residential or small commercial markets (including the important horticultural sector). The power and industrial sectors accounted for approximately 30% each. From 1990 to 2001, natural gas consumption in the Netherlands grew from approximately 36 Bcm/y to 43 Bcm/y, a relatively low annual average growth rate of 1.3%.

Although we believe that the power sector is relatively important in the Netherlands, the main characteristic of the market is its maturity and the very high penetration of gas in a high energy economy. Other factors in gas demand are the status of the one nuclear plant at Borssele and the future trends in imports of power from Germany and France.

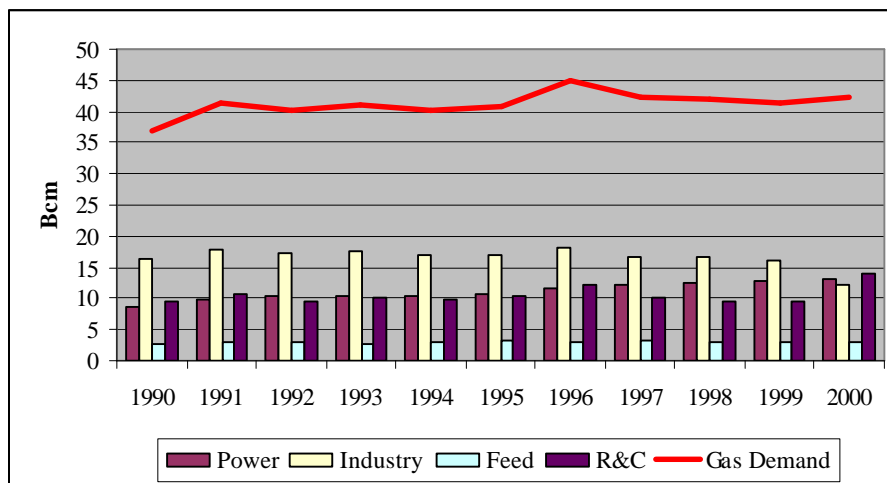
The IEA publication, “Energy Balances of OECD Countries”, dated July 2003, gives the latest available breakdown of gas demand in the Netherlands - for 2001. This is shown below:

Table 5 Composition of Gas Demand in the Netherlands, 2001

	Bcm/year	%
Power and Heat	13.6	32%
Industry	11.5	27%
Feedstock	2.7	6%
Residential & Commercial	15.1	35%
Total Demand	42.9	100%

Source: IEA

Fig 10 Historical Growth of the Dutch Gas market 1990 to 2000



Source: IEA

3.2.2 Demand

Given the high penetration of gas and the traditional reliance of the Dutch economy on the Groningen field, there would seem to be limited scope for gas market growth. However, the Dutch economy is expected to grow at a steady rate – approximately 2% p.a. once it has recovered from the recent downturn. This growth is predicted by the OECD for 2005 in its 2003 forecast and this is the rate of GDP growth we assume for our central gas demand forecast.

Because per capita energy consumption is already high and gas penetration within that is also the highest in the EU 15 countries, our central demand forecast for the Dutch market assumes a growth rate for gas demand which is, on average, significantly less than the expected rate of growth in the economy. For our central demand case, we assume a growth rate of approximately 1% per year in the non-power sectors and the same rate for the power sector. This predicted growth rate for power demand is low compared with that of two other agencies. TenneT, the Dutch power system operator, predicts growth rates through to 2007 of approximately 2.4% p.a., and the EU, in its Energy Balances and Indicators 2003, suggests a growth rate in power generation of 2.5% p.a. through to 2010 and 2.2% p.a. from 2010 to 2020.

Imports of power are also a significant factor. We do not expect power imports to keep growing and anticipate that they have almost reached their ceiling of approximately 20 Twh p.a. This assumption is equivalent to EU forecasts, which show imports through to 2030 at 21 Twh p.a. For our central demand case, we assume that the decommissioning of the Dutch nuclear power station at Borssele has been postponed indefinitely. We also assume that the only growth area in power generation, apart from gas, is in renewable energy which Gasunie forecasts as increasing by as much as 10% per year over the foreseeable future.

3.2.3 Contracted Gas Supply Compared with Demand

The gas supply position in the Netherlands is unique. The major producer, NAM, is effectively owned 50% by the Dutch state and 25% each by Shell and ExxonMobil, with the state being in overall control. The same shareholdings apply to Gasunie, which has been unbundled into gas supply and gas infrastructure companies (which are still under common ownership). Liberalisation is developing in the gas market, but the issue of unbundling the Shell and ExxonMobil shareholdings from the state without jeopardising security of supply and national interest is currently unresolved and remains an obstacle to progress.

Gas supply in the Netherlands is dominated by the Groningen gas field, which is used flexibly, as a “swing producer”, being increased or decreased to accommodate both demand patterns and production and/or imports from other sources. Gasunie operates a small fields policy on behalf of the state, which guarantees that production brought to market by smaller producers will be purchased at an agreed price and that supply from Groningen will be turned down accordingly. Similarly any surpluses in the market will, for the time being, be accommodated by Groningen turning down its supply.

Traditionally, the imports purchased by Gasunie have been used to conserve Groningen reserves and to enable Gasunie to add value by selling into neighbouring markets more flexible gas than can be purchased from more distant suppliers. A price premium is secured for this extra flexibility. Our base case supply, which is reflected in the supply table below, is affected by the fact that the indigenous supply is limited by a state imposed ceiling. The actual supply could prove to be much lower depending upon the Netherlands’ domestic and export needs.

Therefore, we expect that the Dutch market is unlikely to be in surplus due to the inherent flexibility of Groningen. It is debateable whether restructuring of the industry would be allowed to the extent that this flexibility were lost.

We believe that there is no material risk that production from the Groningen gas field would be turned up in a way which would reduce flows under existing gas import agreements. This would be contrary to the apparent rationale for entering into those agreements in the first place - which was and still is to help manage and conserve national resources and create added value from gas export sales.

Table 6 Netherlands - Contracted Supply¹, Indigenous Production & Exports¹

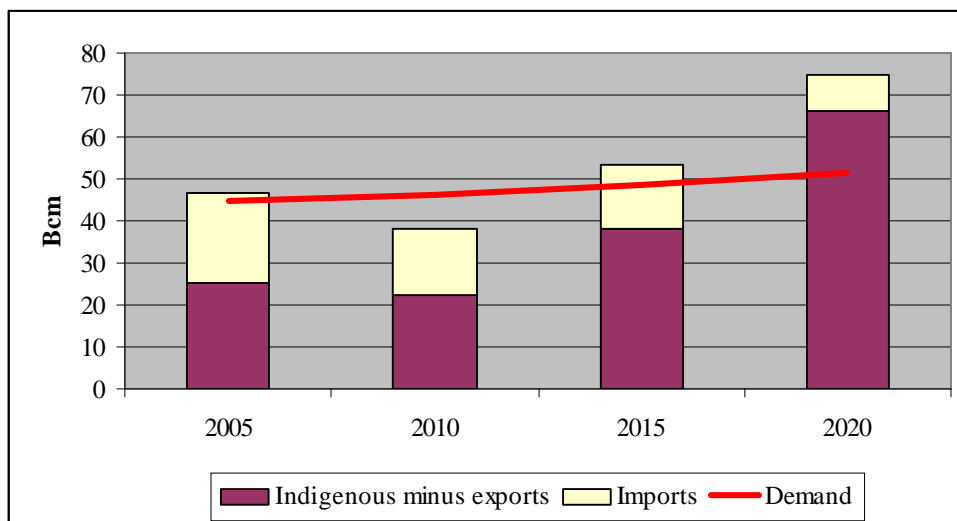
	Country	Supplier	Buyer	Volume Bcm/year					Comment
				2000	2005	2010	2015	2020	
Import	Indigenous			70.0	70.0	70.0	70.0	70.0	
	Russia	Gazprom	Gasunie	0.0	3.5	4.0	4.0	0.0	Buyers Option to extend from 2019
	Norway	Statoil	SEP	2.0	2.0	2.0	2.0	0	
	Norway	Statoil	Gasunie	4.6	4.6	3.6	3.6	3.6	
	Norway	Statoil	Essent		1.4	0.0	0.0	0.0	
	UK	Centrica	Entrade	1.0	1.0	0.0	0.0	0.0	
	UK	ConocoPhillips	Gasunie	1.0	1.0	0.0	0.0	0.0	
	UK	ExxonMobil	Hydro	0.8	0.8	0.0	0.0	0.0	
	Germany	DN	Gasunie	0.2	1.2	1.2	0.6	0.0	
	Denmark	Maersk	Hydro	0.0	0.6	0.0	0.0	0.0	
	Short Term Trade			5.0	5.0	5.0	5.0	5.0	
Export¹									
		Gasunie	Italy	-6.0	-10.0	-10.0	-10.0	-4.0	
		Gasunie	Germany	-17.0	-17.0	-17.0	-12.0	0.0	
		Gasunie	France	-7.0	-8.0	-7.0	-6.0	0.0	
		Gasunie	Belgium	-5.4	-5.6	-5.6	0.0	0.0	
		Gasunie	UK	0.0	-4.0	-8.0	-4.0	0.0	
Total Supply				49.2	46.5	38.2	53.2	74.6	
<i>Supply and Demand Balance</i>					1.7	-8	4.5	23.3	
Central Demand²					44.8	46.2	48.7	51.3	

¹Contracted supply and exports reflect current contractual arrangements. Apparent declines in volumes of either supply or export in later years reflect the assumption that contracts will terminate at the end of their term. In some cases, this is not a true reflection of reality in that many will be renewed and some have formal options for renewal. For the impact of the renewal of certain contracts on the supply and demand balance, see the discussion below of Dutch adjusted supply in relation to demand.

² Gas Strategies Forecast

Source: Gas Strategies

Fig 11 Dutch Base Supply vs Central Demand Case 2005 to 2020



¹Contracted imports and exports reflect current contractual arrangements. Apparent declines in volumes of either supply or export in later years reflect the assumption that contracts will terminate at the end of their term. In some cases, this is not a true reflection of reality in that many will be renewed and some have formal options for renewal. For the impact of the renewal of certain contracts on the supply and demand balance, see the discussion below of Dutch adjusted supply in relation to demand.

Source: Gas Strategies

The apparent deficit in and around 2010 is caused by the supply deal entered into between Gasunie and Centrica of the UK. This is conditional upon completion of the Dutch-UK interconnecting pipeline (BBL) being completed. Gasunie has now announced that this project will go ahead. In order to cover the deficit we believe that either supply from Groningen will be turned up or Gasunie will source the supply with more imported gas. In later years the apparent surplus is exacerbated by the termination of several long-term export contracts. It is likely that the export contracts to Belgium, France and Italy will be substantially renewed in order to maintain some diversity of supply in those markets, provided Groningen production is still holding up. Conversely, if Groningen is in decline, we expect the surplus in 2020 to be lower than shown.

We do not anticipate that there will be a significantly increasing surplus of Dutch gas. Dutch gas supply is still heavily managed to conserve the national resource and we do not believe that Groningen will represent a serious overhang on the market - in other words we expect imbalances to be accommodated by the flexibility in the Groningen supply. We do not believe the Dutch government is likely to cede control over this vital resource to the extent that gas production would be allowed to run free.

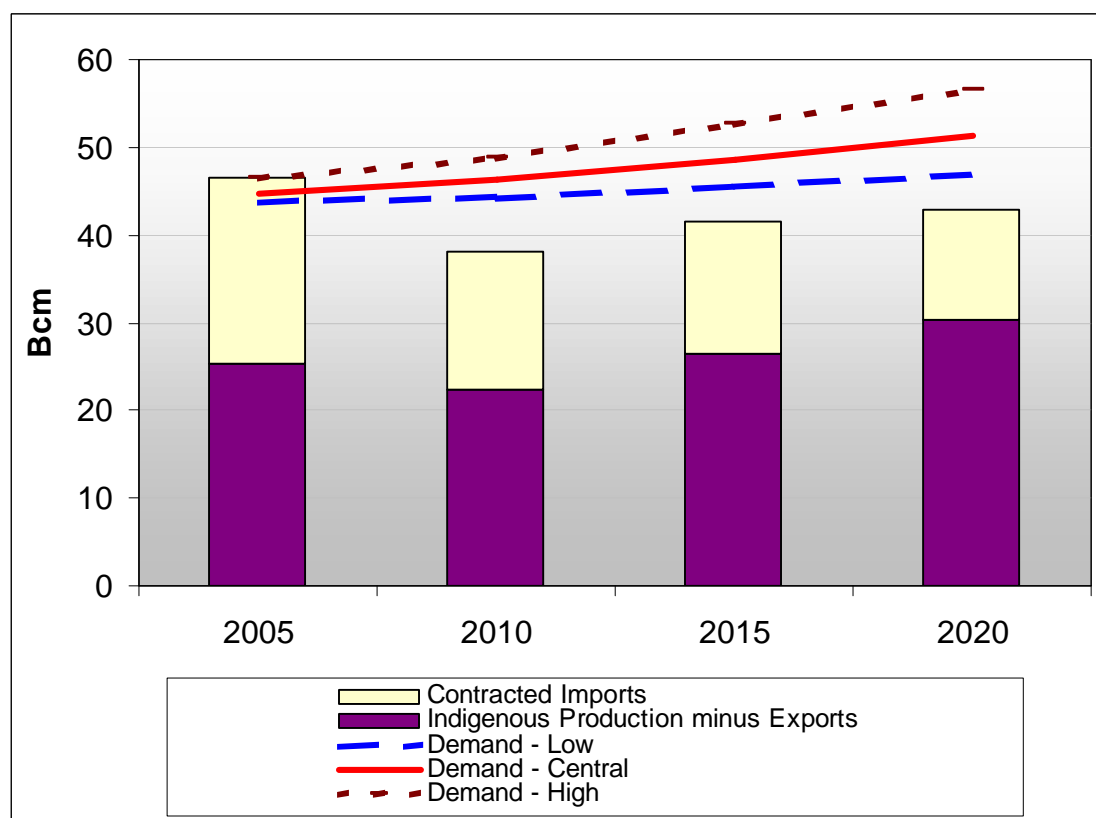
Additionally the Gas Strategies Central Demand Case is slightly low compared with other forecasts - particularly in its assumptions about the growth of power demand.

In the following gas supply and demand balance we have made the following adjustments to the supply side:

- As noted above, in our base supply case, Dutch exports are assumed to terminate and not to be renewed at the end of their contract term. The supply and demand balance below assumes that, with the exception of the Centrica contract, these contracts are renewed at their plateau rates. Given the potential supply uncertainty in the UK, we believe that it would not be reasonable to assume the extension of the Centrica contract.
- In our base supply case import contracts likewise are assumed not to continue beyond their agreed term. We believe that this is a reasonable assumption for the UK and Norway/SEP contracts, which are with various companies operating in the market and which may have very different commercial positions in the future gas market. Also, their termination dates coincide with the currently forecast deficits for the UK market. Although such deficits may not ultimately materialise, the commercial positions of the sellers may be under review as a result of the perception.
- For the purposes of developing an adjusted supply case, we assume that the Russian Gas contract will continue beyond its current term which, given the mutual benefits derived by both parties from its terms, we believe is a reasonable assumption.

In line with the above adjustments a supply and demand balance for the Dutch market would look as follows:

Fig 12 Dutch Adjusted Supply vs Central and High and Low Demand Cases, 2005 to 2020



Source: Gas Strategies

4. Gas Supply and Demand in Europe

4.1 EU15

On the supply side, there are currently firm contracts entered into for imports from 10 national sources, plus indigenous production. However, as of March 2004, the majority of imported supply is in the hands of just three major supplying countries. A summary of these sources is shown below:

Table 7 EU15 Base Supply vs Central Demand Case - Balance to 2020

Bcm	2000	2005	2010	2015	2020
Indigenous Supply*	235.8	217.0	186.9	166.2	158.0
Contracted Imports¹					
Russia	78.2	89.8	94.6	83.8	64.3
Norway	53.4	80.2	87.5	83.0	61.8
Algeria	54.4	57.9	57.3	38.2	18.1
Nigeria	6.0	11.3	13.2	13.2	12.3
Trinidad	0.9	6.2	6.2	6.2	4.5
Oman	0.0	2.7	2.2	2.2	2.2
Egypt	0.0	4.6	9.4	9.4	9.4
Qatar	0.0	6.3	7.9	7.9	6.6
Libya	0.8	9.0	8.0	8.0	8.0
UAE	0.0	1.0	0.0	0.0	0.0
Total Supply	429.4	486.1	473.4	418.1	345.1
<i>Supply Demand Balance</i>	24.5	23.8	-46.1	-154.6	-280.1
Central Demand²	405.0	462.3	519.4	572.8	625.2

¹ Contracted imports reflects current supply contracts to Europe from the various supply countries. Apparent declines in volumes in later years reflect the assumption that contracts will terminate at the end of their term. In some cases this is not a true reflection of reality in that many will be renewed and some have formal options for renewal. For the impact of the renewal of certain contracts on the supply and demand balance, see the discussion below of EU15 adjusted supply in relation to demand.

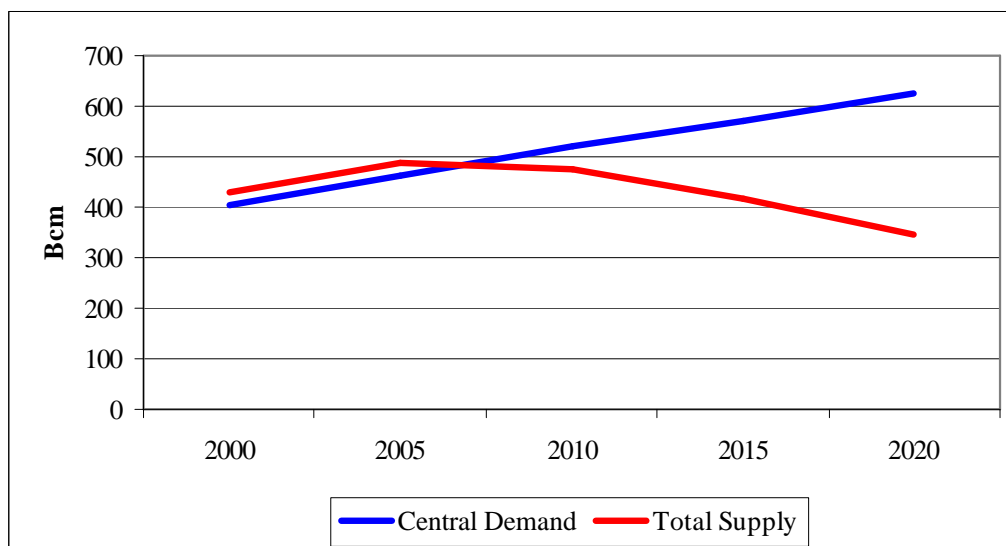
² Gas Strategies Forecast
2000 figures are actual.

*production less exports to non EU Countries. Dutch exports are included in Indigenous Supply.

Source: www.GasStrategiesOnline.com

This analysis shows a small but, in our view, easily managed aggregate surplus through to 2005 and an increasing deficit from 2010 as contracts and indigenous production fall away and demand grows. This is also shown graphically below.

Fig 13 EU15 Base Supply versus Central Demand case



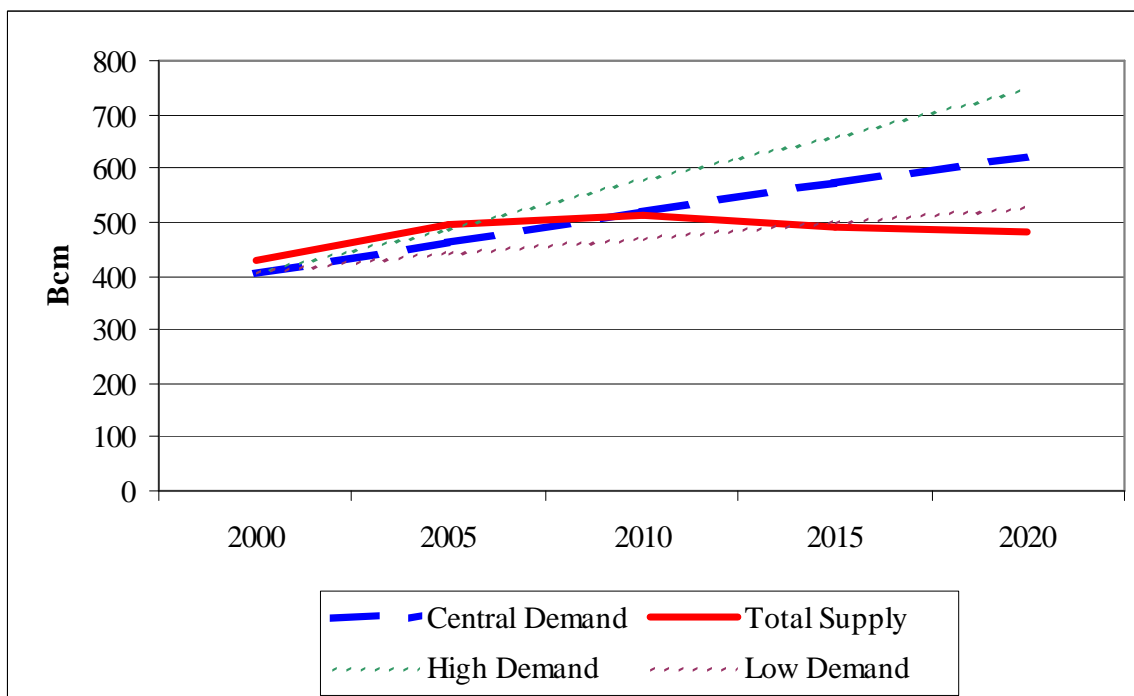
Contracted imports reflects current supply contracts to Europe from the various supply countries. Apparent declines in volumes in later years reflect the assumption that contracts will terminate at the end of their term. In some cases this is not a true reflection of reality in that many will be renewed and some have formal options for renewal. For the impact of the renewal of certain contracts on the supply and demand balance, see the discussion below of EU15 adjusted supply in relation to demand.

Source: www.GasStrategiesOnline.com

Approximately 20Bcm/y of the apparent deficit in 2010 is attributable to the UK market, where indigenous production is forecast to decrease. As noted above, the deficits assume that contracts serving the EU15 will not be renewed at their termination dates.

For the purposes of our adjusted supply case scenario the figure below models the assumption that infrastructure developments serving the UK will fill the deficit there and existing contracts will be renewed. It shows the supply and demand balance in the EU 15 on the assumption that that, by 2010, an additional 40 Bcm/y of currently un-contracted gas may be entering the UK market, from Norway (20 Bcm/y from Ormen Lange) or from planned LNG schemes (4 Bcm/y into the Isle of Grain and 16 Bcm/y into Milford Haven). Additionally, we assume that Russian, Algerian and Norwegian supplies to the EU15 will continue at their 2010 levels. Based on the adjusted supply case a small and easily managed surplus is shown until after 2010.

Fig 14 EU15 Adjusted Supply versus Central, High and Low Demand Cases



Source: www.GasStrategiesOnline.com

The supply side in both the base and the adjusted cases includes the Gazprom contracts to Italy and the Netherlands that provide security in the offering. The conclusion we draw is that, even if currently contracted supplies from the three traditional sources continue at their peak levels through to 2020 and surpluses in the UK market have to be accommodated, there should be enough demand in the EU15 market to absorb all currently contracted gas, including the two contracts which are the subject of the bond issue.

4.2 Gas Supply and Demand in the Main Markets of North-West Europe

In this analysis, north-west Europe includes the markets of Belgium, France, Germany and the UK. These are the markets (together with Italy and the Netherlands) that, in our view, represent the most natural destination for Russian gas outside Central Europe, the Balkans and the Baltic countries. The Netherlands is excluded from this discussion and Dutch exports are shown as trade between nations rather than an indigenous supply.

**Table 8 North-West Europe Main Markets (Excluding the Netherlands)
Base Supply versus Central Demand Case Balance to 2020**

Bcm	2000	2005	2010	2015	2020
Indigenous Supply	119.4	98.7	77.6	67.2	60.9
Contracted Imports					
Russia	47.3	47.3	49	45	36.5
Norway	43.4	62.7	71.6	67	47.8
Algeria	14.8	19.2	14.6	4.4	4.4
Netherlands	29.4	34.6	37.6	22	12
Other	11.7	14.6	14.8	10.5	10.5
Total Supply	266	277.1	265.2	216.1	172.1
<i>Supply and Demand Balance</i>	<i>46.5</i>	<i>13</i>	<i>-25.7</i>	<i>-103</i>	<i>-176.1</i>
Central Demand²	219.5	264.1	290.9	319.1	348.2

¹ Contracted imports reflects current supply contracts to Europe from the various supply countries. Apparent declines in volumes in later years reflect the assumption that contracts will terminate at the end of their term. In some cases, this is not a true reflection of reality in that many will be renewed and some have formal options for renewal. For the impact of the renewal of certain contracts on the supply and demand balance, see the discussion below of North-West Europe adjusted supply in relation to demand.

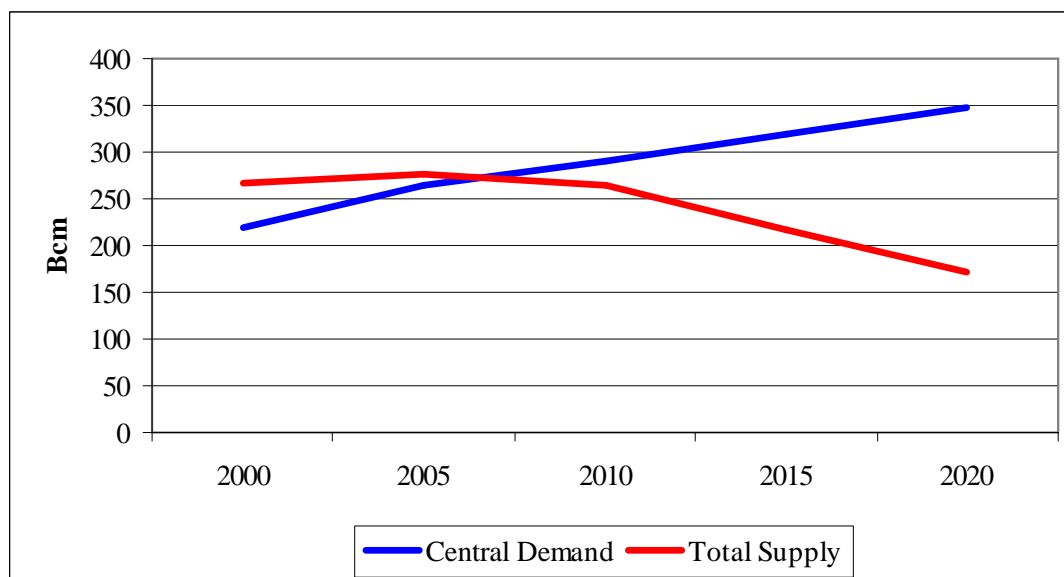
² Gas Strategies Forecast

2000 figures are actual.

*Production less exports to non EU Countries.

Source: www.GasStrategiesOnline.com

Fig 15 North-West Europe Main Markets (excluding the Netherlands) Base Supply versus Central Demand Case



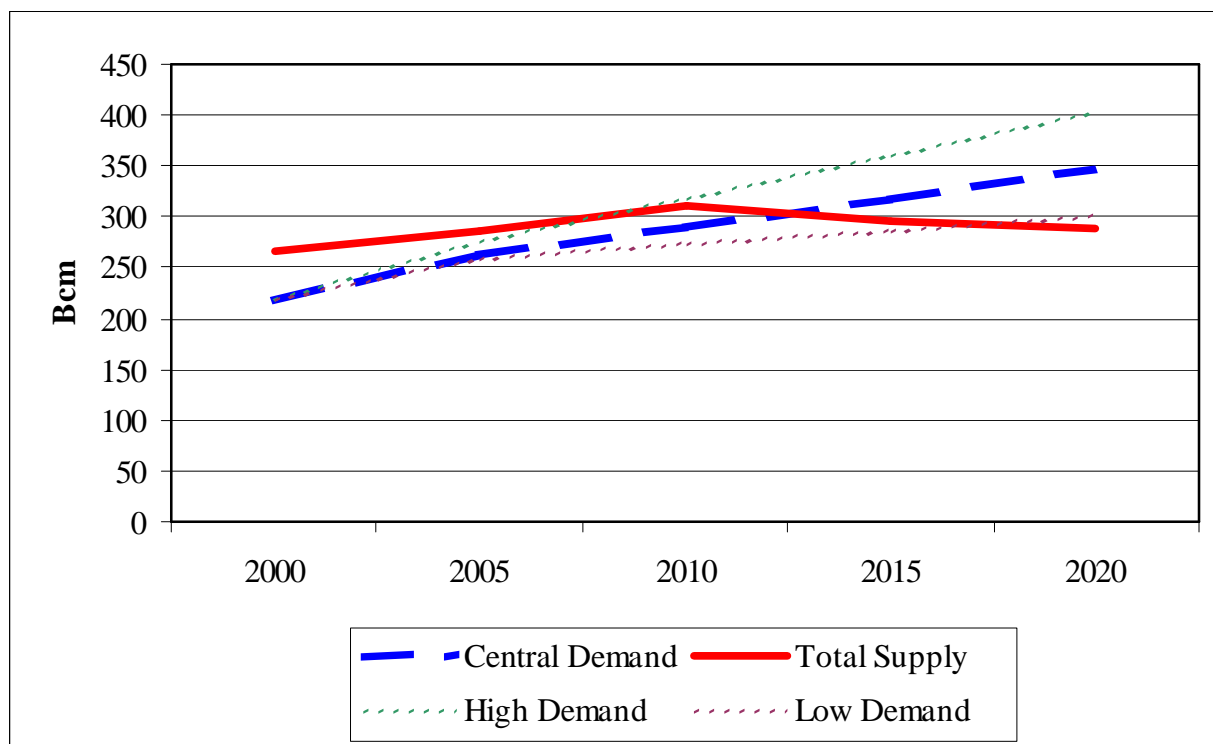
Contracted imports reflects current supply contracts to Europe from the various supply countries. Apparent declines in volumes in later years reflect the assumption that contracts will terminate at the end of their term. In some cases, this is not a true reflection of reality in that many will be renewed and some have formal options for renewal. For the impact of the renewal of certain contracts on the supply and demand balance, see the discussion below of North-West Europe adjusted supply in relation to demand.

Source: www.GasStrategiesOnline.com

As with the EU15 as a whole, this analysis shows a small aggregate surplus in 2005 which, in our view, will be easily managed through use of take-or-pay flexibility.

In order to model our adjusted supply case, in which the supplies pressing on the UK market are taken into account and the renewal of certain contracts is assumed, we have made the same assumptions as for the EU15 above - namely, that an additional 40Bcm/y will target the UK by 2010 and the volumes contracted with Russia, the Netherlands and Norway will continue at their 2010 levels. We also assume that the Algerian supplies into Zeebrugge continue after their current contractual expiry date in 2006. Industry observers are not giving this extension a high probability, but we believe that, if not Algerian LNG, other LNG will find its way into the Zeebrugge terminal, which would otherwise be underutilised.

**Fig 16 North-West Europe Main Markets (excluding the Netherlands)
Adjusted Supply versus Central, High and Low Demand Cases**



Source: www.GasStrategiesOnline.com

In our adjusted supply case scenario, a surplus of approximately 6% of adjusted supply exists in the north-west European countries, excluding the Netherlands, between 2005 and 2010 but this becomes a deficit by 2015. Even in this scenario, we believe that currently contracted gas will continue to be placed in Northwest Europe.

5. European Gas Prices and EU Supplies

5.1 Current Border Gas Price Structure (Oil Price Driven)

European long-term contract border gas and LNG prices (and end user gas prices) have traditionally been set under the inter-fuel competition model, where gas is valued at the same heating value (or at a small premium to reflect its better environmental properties and ease of use) as the main competing fuel for the market sector.

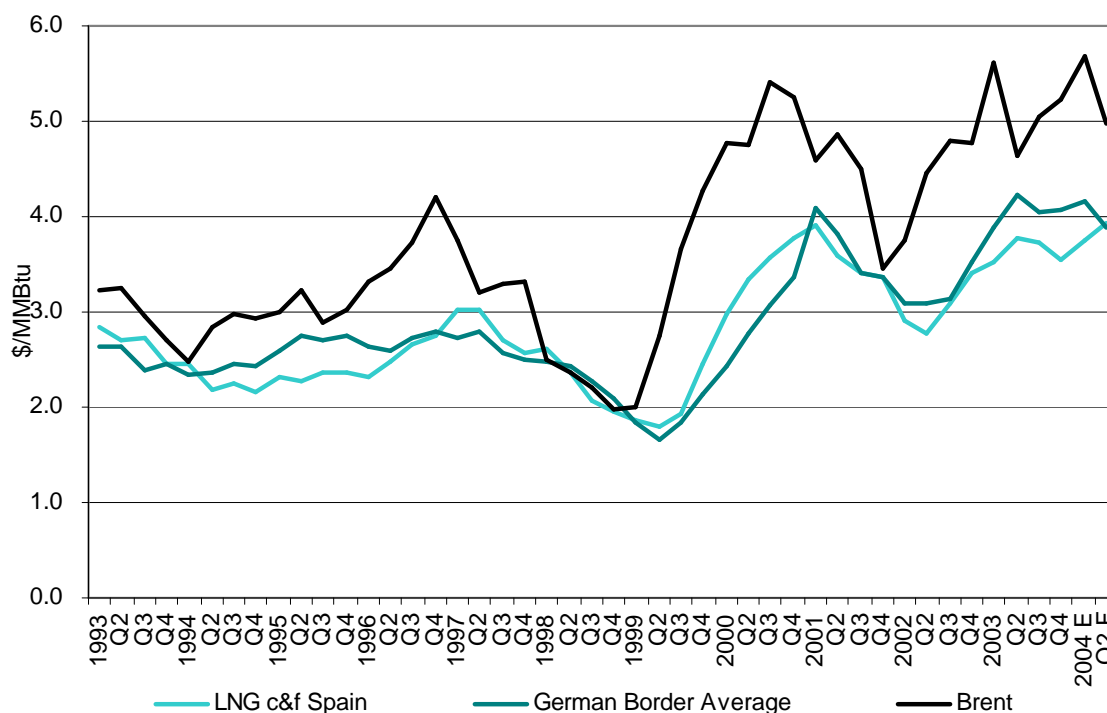
For most gas use, the relevant competing fuel in the market sector is an oil product (e.g. heavy fuel oil in the industrial sector and gasoil in the residential/commercial sectors) although other products are also used for reference, including coal. Consequently, for pipeline gas at the border and LNG prices, the relevant competing fuel used for calculating the contract price is made up of a mixture of fuel oil (low and high sulphur) and gasoil. It is possible that other indicators will be used, e.g. power prices if the gas is destined for power generation. It is also quite common for crude oil to be used in the price formulae rather than the refined products found in direct competition with gas in the market.

Gas prices therefore tend to be set and subsequently escalated by reference to underlying oil product prices, which themselves are based on crude oil prices. The gas pricing formulae are structured to provide monthly, or more commonly, quarterly contract prices, and usually contain time lags of 3-12 months (with a preponderance of 6-9 months) in the oil price reference period. These factors help to smooth out the (sometimes extreme) volatility of oil markets in terms of its effect the gas contract price.

By their very nature, European long-term gas contracts and related border prices are commercially sensitive and very confidential. The figures presented here are our best estimates of prices, based on long-running models, regularly updated and calibrated. They do not purport to be actual invoice prices, nor are they the result of unsupported “price reporting”.

The historical development of European border gas prices - represented below by the German border average gas import price (published by the Federal Ministry of Economics and Labour (BMWA)) and Gas Strategies’ estimate for LNG prices delivered to Spain - compared with crude oil prices is shown in the figure below. The graph shows the effect of the lag in price indexation of gas relative to oil prices.

Fig 17 Historical Border Gas Prices



Source: Gas Strategies European Gas Pricing Service

Gas Strategies uses the German border average price and the estimated LNG price delivered to Spain as “marker” prices for European long-term contract border gas and LNG prices. Our historical correlations show that contract prices will move broadly in line with these prices, with the values of any differentials between the marker price and individual contract prices reflecting the difference in delivery terms (location of delivery point, flexibility or swing, take-or-pay level, etc.).

5.2 Contract Prices for Russian Gas to Italy and the Netherlands

Taking into account these differences, we would expect the Italian contract price to be at approximately the same level as the German border average price (or north-west European border gas price). However, with the contra-seasonal offtake pattern for deliveries under the Dutch contract (i.e. the fact that gas can be diverted by Gazprom from the Dutch market during the winter when demand might be expected to be at its highest), we would expect the Dutch price to be at a slight discount to the north-west European price. The exact details of the pricing clauses are strictly confidential, but it is unlikely that prices are significantly different from typical north-west European long-term contract prices.

5.3 Liberalisation and Potential De-coupling from Oil

As discussed above, gas prices in north-west Europe have historically been set against the cost of competing fuels, mostly oil products, which for most of the time gave a price sufficiently high to yield satisfactory profits at all points in the supply chain. We believe that this pricing model is increasingly likely to come under strain in the EU as liberalisation takes effect.

Although our view is necessarily based on limited data reflecting the relatively limited experience of EU gas market liberalisation, Gas Strategies expects that prices will move towards open gas-to-gas competition in a series of stages. The first stage, which has already been reached in several countries (Spain being an example) is characterised by new entrants gaining a foothold by discounting prices. This “discounting” stage can last for several years, but should eventually start to collapse when the old incumbent loses market share to the point where it is no longer the price setter or its revenue and cash flow are seriously eroded and some counter strategy and/or restructuring is required.

In our view, this should probably be the point at which the market participants may find that in aggregate they have bought too much gas. This should generally lead to a short and turbulent transition or unravelling phase in which the need to minimise take-or-pay costs leads gas prices to de-couple from oil prices. Gas should generally be sold below the purchase price and contract renegotiation may start.

Eventually, in our view, the market should emerge into full gas-to-gas competition unless producers can resist changes to contract terms and hence limit liberalisation. It is possible that the main producers may manage the market transition and minimise the volatility over a longer period.

As gas becomes liberalised in a wider European area, we would expect trading to increase and ultimately we would expect long-term average price levels to be set by, or at least be influenced by, longer-term average resource costs. We would expect these to be based upon new supplies, which would be called upon to fulfil growing demand and on the supply/demand balance for gas. Even in a fully-liberalised market, we would expect the level of oil prices to have an impact on gas prices, provided that gas supply and demand were reasonably in balance, as there is a significant volume of demand that can switch between oil and gas depending on price.

5.4 Supply/Demand Balance for EU 25 and the Supply Cost Curve

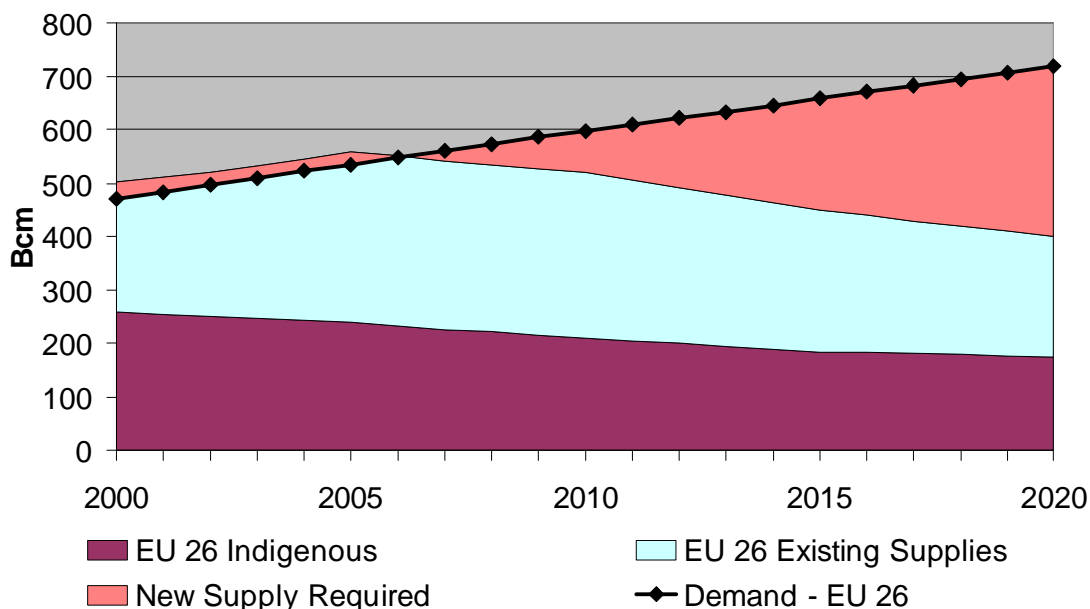
The following sections discuss the supply and demand balance and the supply cost curve for the EU 25 area. These sections focus on potential new supplies which, as noted in section 2.1, were excluded from the previous analysis.

5.4.1 Supply/Demand Balance for EU 25

The trading area for European gas (EU 25) is defined by the current EU15 and Poland, the Czech and Slovak Republics, Hungary, Romania, Bulgaria, the three Baltic States and Slovenia. This area was chosen in order to capture Russian and Caspian/Middle East trade balances. The EU 15 is considered to be too narrow a trading area for the longer term as the accession countries begin to integrate and the EU25 area becomes more relevant .

For the purposes of this analysis, Gas Strategies has defined “New Supply Required” as the gap that new green field supply projects are expected to fill. This combines projected rising EU 25 demand and our view of declining indigenous supplies with the tail off of supply from existing import routes/infrastructure. Our projected supply from the existing import infrastructure assumes that all supply capacity in place in 2005 remains online to 2010, and that 50% of this supply capacity must be replaced over the twenty year period 2010-2030 as older supply infrastructure projects reach retirement and effectively need replacement.

Fig 18 Overall Supply/Demand Balance for the EU 25



Source: Gas Strategies

5.4.2 Supply Cost Curve – 2020

Gas Strategies has constructed a list of 30 potential supply projects to Europe from the European supply area which includes reserves and supply projects from the sources below.

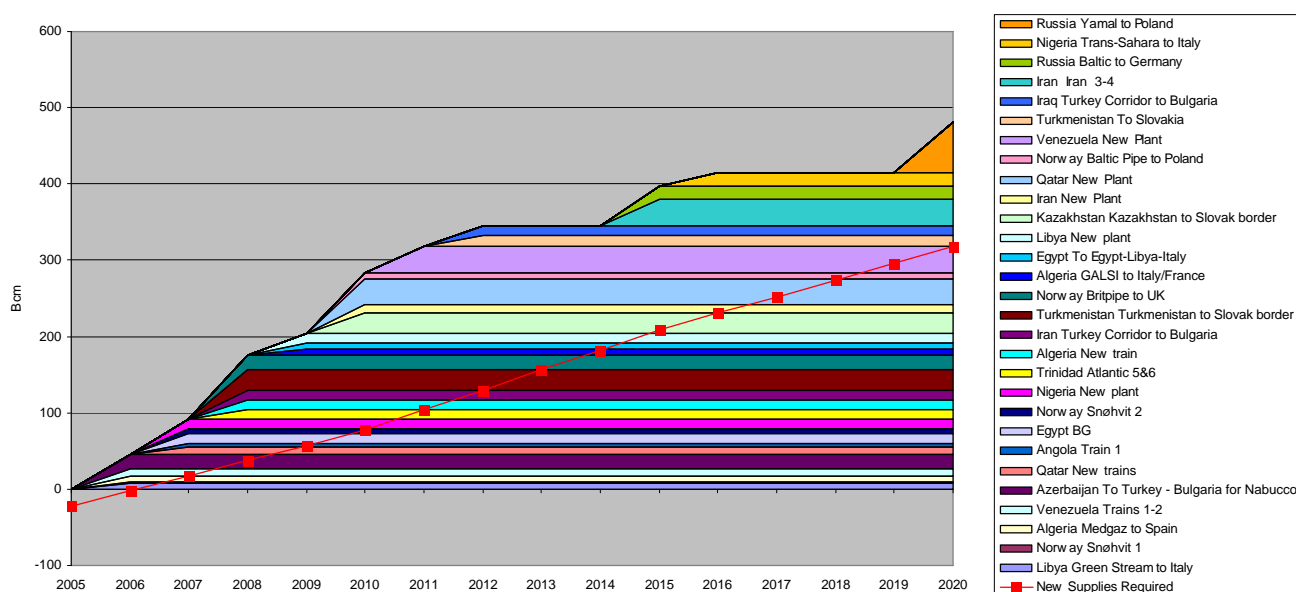
	Pipeline	LNG
Europe	✓	✓
Caspian	✓	
North Africa	✓	✓
West Siberia	✓	
Middle East	✓	✓
West Africa	✓	✓
Caribbean		✓

Source: Gas Strategies

The source regions shown in the table are those which, in our view, are most likely to be potential suppliers to the European area through to 2020 and beyond. The projects we have chosen are those which, on the basis of press and industry reports, are primary examples of gas schemes which could supply Europe. This is not an exhaustive list of potential projects, nor is it likely that all will go ahead. However, Gas Strategies believes the projects chosen provide a reasonable basis for the resource cost analysis.

These are assumed new sources over and above existing supply volumes. In a perfect market, the assumed supply sources would be developed in order of cost, with the least cost supply options being developed first. However, we would expect other factors, including market power of suppliers or project sponsors, country risk and security of supply, would be expected to have significant bearing. Below we show a potential stack of these new projects to fill the expected supply gap to 2020.

Fig 19 Required New Supply v Potential New Projects



Source: Gas Strategies Estimates

For the purpose of this analysis, we have estimated the supply costs for each of the potential supply projects by separately considering and modelling the following cost factors:

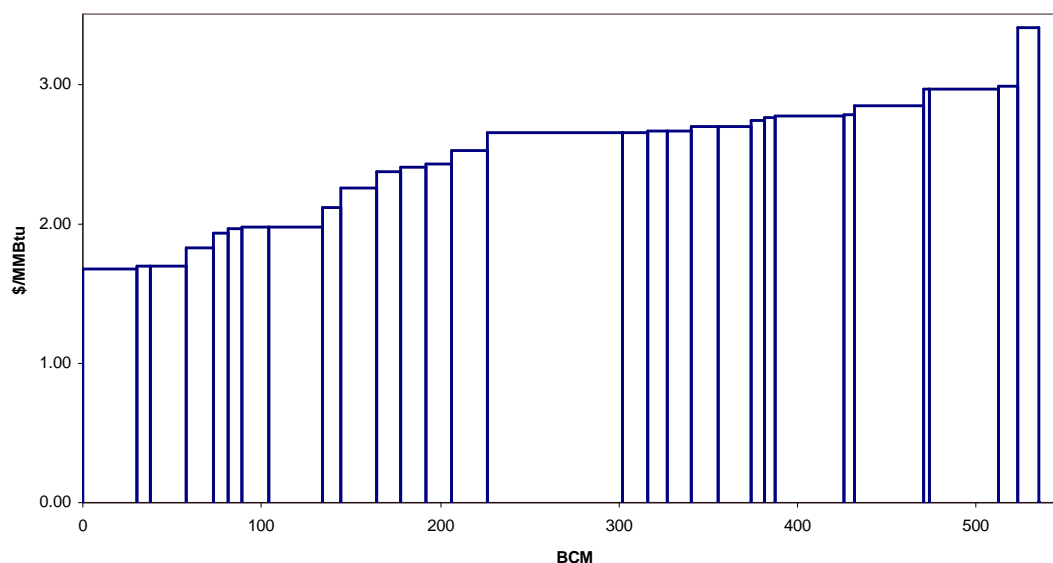
Table 9 Supply Cost Factors

	Pipeline	LNG
Gas Cost	Upstream cost (offshore /onshore)	Upstream Cost or JV LNG plant gas cost
Liquefaction Cost		Calculated on CAPEX, OPEX, volume and number of trains
Transport Cost	Pipeline Model calculates CAPEX, OPEX based on Distance, Diameter, Terrain, Volume, Rate of Return	LNG Shipping Cost based on distance and optimum ship use
Transit Cost	Distance-related across Belarus, Ukraine	
Regasification Cost		Assumed \$0.30/MMBtu

Source: Gas Strategies

By arranging the supply projects by cost, the following supply cost curve to a notional north-western European balancing point can be constructed. This balancing point does not currently exist in practice, but it is a notional point at which Gas Strategies strikes a long-term gas resource cost based price in the context of forecast supply and demand.

Fig 20 Supply Cost Curve – 2020 – Real \$2003/MMBtu



Source: Gas Strategies

5.5 Competing Supply Sources

The full supply cost to the north-west European market for the thirty-plus assumed new projects (totalling 535 Bcm/year of supply capacity) that Gas Strategies has modelled can be summarised as follows:

Table 10 Supply Cost Summary – 535 Bcm Potential

	Low Cost	Medium Cost	High Cost
	1.75 - \$2.25/MMBtu \$65-85/ 000 cm	\$2.25-\$2.75/MMBtu \$85-103/ 000 cm	\$2.75-\$3.5/MMBtu \$103-132/ 000 cm
Pipeline	North Sea Central Asia 164 Bcm	North Africa Caspian Russia 136 Bcm	
LNG		North Africa Nigeria Middle East Trinidad 82 Bcm	Iran Norway Venezuela Angola 153 Bcm

Source: Gas Strategies Estimates

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