Open Joint Stock Company Gazprom

U.S.$500,000,000

9.125 per cent.

Loan Participation Notes due 2007

issued by, but without recourse to, Salomon Brothers AG
for the purpose of financing a loan to

Open Joint Stock Company Gazprom

Issue Price: 100%

Salomon Brothers AG (the "Bank") is issuing an aggregate principal amount of U.S.$500,000,000 9.125 per cent. Fixed-Rate Loan Participation Notes due 2007 (the "Notes") for the sole purpose of financing a 5-year loan (the "Loan") to Open Joint Stock Company Gazprom (the "Borrower" or "Gazprom") pursuant to a loan agreement dated 19 April 2002 (the "Loan Agreement") between the Bank and the Borrower. The Bank will charge by way of first fixed charge as security for its payment obligations in respect of the Notes its rights and interests as lender under the Loan Agreement to The Bank of New York as trustee (the "Trustee"), for the benefit of the holders of the Notes (the "Noteholders") and will transfer its administrative rights under the Loan Agreement to the Trustee.

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Bank to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received by or for the account of the Bank pursuant to the Loan Agreement. The Bank will have no other financial obligation under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of the Borrower in respect of the financial servicing of the Notes.**

Interest on the Notes will be payable semi-annually in arrear on 25 April and 25 October in each year commencing on 25 October 2002 as described under "Terms and Conditions of the Notes — Interest". The Notes will bear interest of 9.125 per cent. per annum.

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 the Federal Republic of Germany. The Loan may be prepaid at its principal amount, together with accrued interest, at the option of the Borrower upon the Borrower or the Bank being required to deduct or withhold any such Russian or German taxes from payments to be made by them in respect of the Notes or pursuant to the Loan Agreement, or following enforcement of the security created in the Trust Deed and upon the Borrower or the Trustee being required to deduct or withhold any taxes of the Russian Federation or the jurisdiction in which the Trustee is then resident. The Loan may also be prepaid if it becomes unlawful for the Loan or the Notes to remain outstanding, as set out in the Loan Agreement, and thereupon (subject to the receipt of the relevant funds from the Borrower) the principal amount of all outstanding Notes will be prepaid by the Bank, together with accrued interest.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "INVESTMENT CONSIDERATIONS".

Application has been made to list the Notes on the Luxembourg Stock Exchange.

THE NOTES HAVE NOT BEEN NOR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN CERTAIN TRANSACTIONS EXEMPT FROM OR NOT SUBJECT TO THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

The Notes will be represented by a global Note (the "Global Note"), without interest coupons, which will be deposited with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), on or about the Closing Date, 25 April 2002. Ownership interests in the Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream Luxembourg and their respective participants. Notes in definitive form will be issued only in limited circumstances.

Joint Lead Managers

Credit Suisse First Boston | **Schroder Salomon Smith Barney**

Managers

ALPHA BANK A.E.
COMMERZBANK SECURITIES
GAZINVEST FINANCE B.V.
(member of the Gazprombank Group)
VNESHECONOMBANK

HVB CORPORATES & MARKETS
ING BARINGS
MDM BANK
WESTDEUTSCHE LANDESBANK GIROZENTRALE

The date of this Offering Circular is 19 April 2002

Gazprom, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to Gazprom, Gazprom and its subsidiaries taken as a whole (the "Group"), the Loan Agreement and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in the Offering Circular relating to Gazprom 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 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, the Group, the Loan Agreement 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. Gazprom accepts responsibility accordingly. No representation or warranty, express or implied, is made by Salomon Brothers International Limited ("SBIL"), Credit Suisse First Boston (Europe) Limited, the Bank or any of their affiliates or any person acting on their behalf or any of the other Managers (as defined in "Subscription and Sale" below) as to the accuracy or completeness of the information contained in this document, and none of such persons has attempted to verify such information. SBIL, however, accepts responsibility for all information with respect to the Bank.

Information contained under the headings "Overview of the Russian Federation" and "Overview of the Russian Gas Industry and its Regulation" includes extracts from information and data publicly released by official and other sources and Gazprom accepts responsibility for accurately reproducing such information and data but accepts no further responsibility in respect of such information and data.

This Offering Circular contains certain forward-looking statements. Such statements reflect significant assumptions and subjective judgments by Gazprom's management and those assumptions and judgments may or may not prove to be correct. There can be no assurance that the future events anticipated by Gazprom's management will occur.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Bank, Gazprom or the Managers to subscribe 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 Gazprom, the Bank and the Managers to inform themselves about and to observe any such restrictions. None of the Bank, Gazprom or the Managers has authorised 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 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.

No person is authorised 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 authorised by or on behalf of the Gazprom, the Bank, the Trustee, or the Managers. The delivery of this document at any time does not imply that the information contained in it is correct as at any time subsequent to its date.

In this Offering Circular, references to "Roubles" and "RUR" are to the lawful currency for the time being of Russia, references to "U.S. dollars", "dollars", U.S.$" and "$" are to the lawful currency for the time being of the United States of America, references to "DM" are to the former currency of the Federal Republic of Germany and references to "euro" refer to the currency introduced at the start of the third stage of European economic and monetary union. This Offering Circular contains conversions of certain amounts into dollars at specified rates solely for the convenience of the reader. 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. Any discrepancies in the tables herein between the amounts listed and the total thereof are due to rounding.

Save where indicated to the contrary, all statements with respect to A, B and C_1, natural gas, gas condensate and oil reserves are in accordance with figures prepared on the basis of Russian classifications and methodologies, which differ in certain respects from international and U.S. classifications and methodologies—see Appendix B Part 1—"Overview of the Russian Gas Industry and its Regulation".

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IN CONNECTION WITH THIS ISSUE, SALOMON BROTHERS INTERNATIONAL LIMITED 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 AFTER THE ISSUE DATE. HOWEVER, THERE MAY BE NO OBLIGATION ON SALOMON BROTHERS INTERNATIONAL LIMITED TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

EXCHANGE RATES AND EXCHANGE CONTROLS

The value of the Rouble depreciated significantly against the dollar from 1991 through the first half of 1995, but stabilised, in part due to new policies adopted by the Central Bank of Russia, until August 1998 when the Rouble depreciated significantly against the dollar following the Russian Government's decision to temporarily stop supporting the Rouble. See "Investment Considerations—Investment Considerations Related to Russia—Exchange Rates, Exchange Controls and Repatriation Restrictions". The Rouble/dollar exchange rate, published by the Central Bank of Russia and expressed as a number of Roubles per U.S.$1.00, was RUR 20.65, RUR 27.00, RUR 28.16 and RUR 30.14 at year-end 1998, 1999, 2000 and 2001, respectively. The rate on 19 April 2002 was RUR 31.16 per U.S.$1.00.

ENFORCEABILITY OF CIVIL LIABILITIES IN RUSSIA

Gazprom is an open joint-stock company organised under the laws of the Russian Federation. The majority of the directors and executive officers of Gazprom reside in Russia. As a result, it may not be possible for investors to effect service of process outside Russia upon Gazprom or such persons. Moreover, substantially all the assets of Gazprom and of such persons are located in Russia, except for certain trading subsidiaries with assets located abroad, and it may not be possible for investors to enforce in Russia judgments rendered against them. Judgments rendered by a court in any jurisdiction outside Russia will be recognised 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 Russian Federation and the United Kingdom.

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INVESTMENT CONSIDERATIONS

An investment in the Notes involves a high degree of risk. Prospective investors should therefore consider carefully the following factors in evaluating the Notes prior to making any investment decision. Each of the factors highlighted below could have a material adverse effect on Gazprom's business, operations and financial condition which, in turn, could have a material adverse effect on Gazprom's ability to service its payment obligations under the Loan.

Investment Considerations Relating to Gazprom

Corporate Governance, Disclosure and Accounting Standards

The corporate affairs of Gazprom are governed by its Charter, internal regulations adopted pursuant to its 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 organised in the United States, the United Kingdom or other jurisdictions.

A principal objective of the securities laws of the United States, the United Kingdom, Russia and other countries is to promote full and fair disclosure of all material corporate information to the public. Gazprom is subject to Russian law which requires, *inter alia,* Gazprom to publish annual financial statements in accordance with Russian Accounting Regulations, together with an independent auditor's report. Nonetheless, there is less publicly available information about Gazprom than there is available for comparable listed companies in, for example, the United States or the United Kingdom.

Recently, however, there have been certain improvements in corporate governance and information disclosure standards in Russia, as the Russian regulatory authorities have paid increasingly more attention to such issues. In particular, the Russian Ministry of Finance has issued an edict requiring all Russian companies to prepare their financial statements in accordance with new standards, based on IAS, with effect from 2002. In addition, since 1997 the Russian Ministry of Finance has required all joint stock companies whose shares are publicly traded to produce annual financial statements prepared in accordance with IAS in addition to financial statements prepared in accordance with Russian accounting standards. Gazprom has published financial statements in accordance with IAS since 1996.

In accordance with Russian legislation, Gazprom is obliged to file quarterly reports on its activities to the Federal Commission on the Securities Markets within 30 days after the end of the relevant quarter. Such reports include certain information on the company, its management, subsidiaries, affiliates, selected financial and business information (such as events of litigation, quarterly accounts prepared in accordance with the Russian accounting standards etc.). Gazprom has regularly published such reports since the fourth quarter of 1998 and generally complies with the reporting requirements, although in the past Gazprom did not always meet the deadlines for filing such reports for technical reasons and was fined a nominal amount.

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.

The Russian Federal Securities Market Commission is currently working on the corporate governance code to be adopted by all Russian public companies.

In light of the current focus on corporate governance issues, Gazprom has reviewed its own position on such issues and has established a special committee headed by a First Deputy Chairman of the Management Committee to develop a corporate governance charter for Gazprom. The Board of Directors is also considering new suggested procedures to ensure the proper co-ordination of transactions and to increase the level of control by the Board of Directors over the work of the Management Committee.

In May 2001, the Board of Directors adopted a code of practice entitled "Procedure for approving transactions involving stocks, shares or participation shares owned by Gazprom, its subsidiaries or affiliated companies" (the "Procedure"). The principal aim of the Procedure is to increase the level of control exercised by the Board of Directors over the acquisition, disposal, charging or transfer by Gazprom or any member of the Group of any stocks, shares or participation shares. The Procedure provides that decisions in respect of such transactions shall be undertaken only after an appropriate commercial appraisal and with the approval of the Board of Directors.

On 23 January 2001, the Board of Directors appointed PricewaterhouseCoopers to examine certain aspects of Gazprom's financial and operating activities and, in particular, its operating relationship with Itera, a U.S. registered company that operates as an independent supplier of gas in Russia and the FSU. PricewaterhouseCoopers presented their report (the "Report") to a meeting of the Board of Directors on 31 July 2001.

The Board of Directors has taken the decision that the Report will remain confidential and that it will not publish or disclose the contents of the Report. The Board of Directors have considered the Report and have found that certain of its recommendations have already been addressed by the adoption of the Procedure. The Board of Directors has directed the Management Committee to draw up plans for the implementation of those recommendations made in the Report that are not addressed by the Procedure.

Regulatory Risks

Gazprom is, and is likely to remain for the foreseeable future, a regulated monopoly. In Russia, natural gas prices are subject to extensive control by governmental authorities and are generally lower than the prices charged to Western European off-takers. Domestic gas sale prices for households are currently less than natural gas prices applicable to industrial end users. In the future, natural gas prices for all customers are likely to be gradually increased. Gazprom believes that the State regulation of natural gas prices for domestic end-users will be abandoned in the future in favour of free market prices. State regulation is to be maintained for natural gas transportation tariffs only.

No assurance, can be given, that the regulation of natural gas prices will be relaxed, that the Government will not reimpose price controls or that consumers will pay or will be able to pay increased natural gas prices. If the Government decides to keep natural gas prices at artificially low levels, thereby effectively forcing Gazprom to continue to subsidise the rest of the Russian economy, there is a risk that Gazprom will not generate sufficient cash flows to proceed with investments in certain natural gas fields (for instance the Yamal peninsula reserves) or to continue to develop export pipelines.

Taxation

Gazprom is subject to a broad range of taxes imposed at federal, regional and local levels and is 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 it operates. 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 Gazprom's already substantial tax burden.

Relationship with the Government

The Government has exercised, and can be expected to continue to exercise, a significant influence over Gazprom's operations.

The Russian Federation currently owns 38.37% of Gazprom's Shares in issue. The Government, through its control of 38.37% of the Gazprom Shares and its representatives on the Board of Directors, has the ability to influence the policies and operations of Gazprom. The Government has previously required Russian companies, including Gazprom, 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 Gazprom at a low level and requires Gazprom to supply natural gas to certain customers notwithstanding their inability to pay for natural gas supplied, thus effectively subsidising the Russian economy.

Gazprom's exploration and production licences are granted and are subject to renewal or extension by federal and local authorities. These licences are also subject to revocation in the event that Gazprom fails to comply with the terms and conditions of such licences.

In order 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 Gazprom and such authorities can have a significant impact on the conditions under which companies like Gazprom can operate in any particular region.

Reorganisation

The risk of a reorganisation of Gazprom 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 calls from certain Russian politicians and Government officials for Gazprom's 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 Federal Law "On Gas Supply in the Russian Federation" No. 69-FZ dated 31 March 1999 (the "Gas Supply Law") mitigates the risk of reorganisation and both the Government and Gazprom have made clarifying statements about any potential future restructuring of Gazprom, Gazprom is not fully protected against the risks of a Government-led reorganisation.

Gas Sales

Gazprom sells a substantial portion of its natural gas in Europe, which is Gazprom's primary source of foreign currency revenues and stable cash flows. For more than 30 years, Gazprom and its predecessors have sold natural gas to Western Europe, generally pursuant to long-term contracts with payment linked to world prices for oil products. Such prices can fluctuate and are determined by supply and demand and other factors over which Gazprom has no control. Should world oil product prices deteriorate substantially in the future, European natural gas prices are likely to decline as well, resulting in a reduction in export revenues for Gazprom. Should natural gas export prices remain low for a prolonged period, Gazprom is likely to experience a cash flow deficit, and will have to either borrow extra funds to proceed with its current investment programmes or reduce its investment commitments.

Delayed and Non-Collectable Payments by Customers; Dependence on Non-Cash Settlement

Gazprom's cash flow may be affected by the limited ability of its customers in Russia and certain countries in the former Soviet Union (the "FSU") to pay for natural gas. There is no assurance that money owed to Gazprom by its customers in Russia and the FSU will be paid in full. As is the case with many Russian companies, Gazprom has 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. Non-cash settlement of transactions has had in the past, and may continue to have in the future, an adverse effect on the ability of Gazprom to fund operational or capital expenditures required to be made in cash and to make tax payments when due.

Competition from Alternative Fuels and Oversupply of Gas in Europe

Gazprom faces varying degrees of competition in each of its major markets from providers of alternative fuels, such as oil and coal. No assurance can be given that Gazprom will be able to compete effectively with such providers of alternative fuels.

Gazprom is also subject to competition in Europe from other natural gas suppliers which could affect the prices and volumes of Gazprom's sales to Europe. One of the major risks faced by Gazprom relates to the balance of supply and demand in the European natural gas markets. The progressive liberalisation of the European natural gas market itself does not represent a major threat to Gazprom, unless it leads to an oversupply of natural gas to the European markets. If oversupply of natural gas becomes a reality, natural gas purchasers will be able to negotiate lower prices on long-term supply contracts with producers such as Gazprom. Whilst Gazprom's management are hopeful that current prices in the European markets are sustainable, especially in light of forecasted growth in European natural gas demand, the emergence of new large suppliers of natural gas could result in an oversupply of natural gas.

Gazprom has received a request for information from the European Commission with respect to certain clauses in Gazprom's contracts with various Italian utilities, under which the Italian utilities are prevented from selling gas on to other off-takers in Western Europe outside of the Italian market. A successful challenge of such clauses by the European Commission would mean that such Italian utilities could be free to sell gas to other off-takers outside of the Italian market, leading to increased competition in the gas market for Gazprom and the possibility of lower prices. Gazprom has responded to this request and is currently in discussions with the European Commission.

Although 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, the State Duma has not yet ratified the Treaty (see Appendix B — Part I — "Overview of the Russian Gas Industry and its Regulation"). Gazprom's management believes that ratification of the Energy Charter Treaty would result in the opening up of the energy markets in Russia to foreign investment as well as its pipelines to the transportation of natural gas from Central Asia to West European markets. Accordingly, any such ratification of the Treaty could open the markets in which Gazprom operates to substantially higher competition and affect Gazprom's long-term supply contracts with its European customers.

Operational Risks

A large percentage of Gazprom's gas production is located in Western Siberia, where remoteness and the harsh climate complicate and increase the cost of production and affect Gazprom's ability to transport its natural gas economically.

Gazprom's gas exploration, production and transportation operations may be adversely affected by many factors, including the breakdown or failure of equipment or processes, performance below expected levels of output or efficiency, labour disputes, natural disasters, weather conditions, terrorist attacks or sabotage to Gazprom's extensive pipeline network. Gazprom has only limited insurance in relation to its assets and operations and, therefore, the financial effect of any such factors would generally have to be satisfied out of Gazprom's cash flow.

Gazprom owns and operates Russia's Unified Gas Supply System ("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. Much 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 is very difficult. Although there have been no significant delays or curtailments of the supply of natural gas to Gazprom's 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.

Gazprom is dependent on the links between its pipeline network and pipeline networks elsewhere for the export of natural gas. Although it is Gazprom's strategy to diversify its export routes, it is currently dependent on pipelines in the Ukraine to deliver a large proportion of its sales of natural gas to Western Europe. It is also dependent on the Ukrainian pipeline system for a significant amount of its storage capacity. At the same time, the Ukraine is dependent on Gazprom to meet its 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 Gazprom and transit fees, Gazprom has no control over the Ukrainian pipeline and cannot prevent any material disruption in the flow of Gazprom's natural gas through the Ukraine. It can only monitor the flow of natural gas in and out of the Ukraine.

Gazprom plans to expand its export capacity and to diversify its export routes, through capital investments in the Yamal-Europe and Blue Stream Projects and other export-oriented projects, such as the Transbalkan Project. It is possible, however, that these plans will be affected, *inter alia*, by a drop in the demand for natural gas in Europe, difficulties related to localised planning and construction processes and Gazprom's ability to obtain external financing on acceptable terms. No assurance can be given that Gazprom will be able to meet its construction targets.

Capital Requirements

Gazprom must increase its capital expenditure significantly over the next five years in order to improve its natural gas, gas condensate and oil production to meet the anticipated demand of customers in Western Europe, Russia and certain FSU countries. Gazprom expects to fund such capital expenditure through internal sources and external financing. There can be, however, no assurance that Gazprom will be able to generate sufficient funds to meet its capital requirements in the future. Lack of sufficient funds in the future may require Gazprom to delay or abandon some or all of its anticipated capital expenditures.

Environmental Risks

Gazprom's operations, which are often innovative and 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. Gazprom has an established environmental policy and monitors its operations in an effort to meet applicable environmental standards. Gazprom made provision in its 2000 IAS financial statements and will, in all likelihood, make a provision in its IAS financial statements for the year ended 31 December 2001 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 Gazprom believes is a reasonable and prudent policy which 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, Gazprom's management is unable to estimate the future financial impact of Gazprom's environmental obligations.

Exchange Rate Risks

Fluctuations in exchange rates influence the results of Gazprom's operations. Gazprom's export receivables are denominated in U.S. dollars or other hard currencies whilst its domestic receivables are denominated in Roubles. Most of Gazprom's operational expenditure is denominated in Roubles, whilst a portion of its capital expenditure is incurred in foreign currencies. The majority of Gazprom's borrowings are denominated in currencies other than Roubles, principally the U.S. dollar and the Euro. Gazprom's financial results may be positively or negatively affected by fluctuations in the value of the Rouble against other currencies, particularly the U.S. dollar and the Euro.

Russian Reserves Classifications and Methodologies

The information relating to natural gas, gas condensate and oil reserves contained in this Offering Circular has been prepared on the basis of Russian classifications and methodologies, which differ significantly from standard international and U.S. classifications and methodologies in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. Accordingly, the information relating to reserves contained herein is subject to adjustments necessary to make it consistent with standard international and U.S. classifications and methodologies. However, Gazprom's management believe that such adjustments, while likely to result in a decrease of the A, B and C_1 reserves reported herein, will not be material and that the amount of Gazprom's reserves as adjusted is sufficient to meet all Gazprom's delivery obligations. Gazprom's management has based its assumptions on an evaluation by internationally recognised independent reservoir engineers, DeGolyer & MacNaughton, which in 1999 carried out an evaluation of gas, gas condensate and oil reserves in the 18 largest gas and gas condensate fields, which accounted for approximately 72% of Gazprom's proved and probable gas reserves. (See Appendix B Part II).

Investment Considerations Relating to Russia

Gazprom is a Russian company, and substantially all of its assets are located in Russia. There are certain risks associated with an investment in Russia. The following are some non-exhaustive examples.

Political Risks

Since 1991, Russia has been evolving from a socialist state with a centrally planned economy to a pluralist democracy with a market economy. The process of political and economic reform is not yet complete, and no assurance can be given that it will continue. The Russian political system remains vulnerable to social and ethnic unrest and any significant political instability could adversely affect the value of foreign investments in Russia and Gazprom's ability to export natural gas and/or oil. The Government has until recently been characterised by frequent change, having experienced five changes in Prime Minister since March 1998. The value of investments in Russia, including investments in Gazprom, could be reduced if such frequent change resumes or if the current President or Government chooses to curtail political liberties or move away from market-oriented reforms.

Significant Russian legislation has been enacted since 1991 to protect private property against expropriation and re-nationalisation by the Government, but there can be no assurance that such protections would be enforced in the event of an attempted expropriation or re-nationalisation, or that privatisation (including Gazprom's privatisation) will not be reversed.

In addition, as Russia is a federation of republics and regions, conflicts of interest between central and regional authorities and other conflicts of interest could negatively affect the value of investments in Russia and, in particular, could create an uncertain operating environment that may hinder Gazprom's long-term planning ability.

Ethnic and religious differences in Russia have given rise to tensions, and in some cases, military conflict. Such events could have a material adverse effect on the value of investments in Russia and on the financial condition of a company such as Gazprom.

Economic Risks

Russia's economy has undergone a rapid transformation marked by periods of significant instability since the end of the Soviet era. In particular, the Government's decision in August 1998 to temporarily stop supporting the Rouble and its servicing of certain domestic and foreign debts, as well as the imposition of a moratorium on the repayment of private foreign currency debt caused the currency to collapse and led to an overall financial crisis. It is possible that Russia may default on its domestic and foreign debt in the future or take actions that could adversely effect its financial stability. Other economic risks that could negatively impact the financial condition of Gazprom include:

- failure by the Government to continue to access funding from the International Monetary Fund or restore access to the international capital markets or improve and maintain the requisite level of tax collection;
- failure by the Government to address systemic problems within Russia's economy, such as sustained periods of relatively high inflation, a weak banking system, high national debt relative to gross domestic product, widespread tax evasion, high levels of organised criminal activity and corruption and substantial levels of unemployment and underemployment which affect the environment in which Gazprom operates and could adversely effect Gazprom's business as a result; and
- fluctuations in the global economy (including, in particular, fluctuations in world prices for oil and natural gas), which may adversely affect Russia's economy and Gazprom's business.

Gazprom produces about 6-8% of Russia's gross domestic product ("GDP") and contributes a substantial amount of the total tax payments to the federal budget, despite not being paid for a significant portion of its sales to the domestic market. Although the non-payment situation improved significantly last year (largely because high commodity prices and a massive trade surplus resulted in a budget surplus), and continues to improve this year, there is no guarantee that it will not deteriorate in the future.

Legal and Regulatory Risks

The following aspects of Russia's legal system create uncertainty with respect to many of the legal and business decisions that Gazprom's management make:

- there may be inconsistencies between laws, Presidential decrees, Government resolutions and ministerial orders, and between local, regional and federal legislation and regulations;

- decrees, resolutions and regulations may be adopted by governmental authorities and agencies without clear constitutional or legislative basis and with a high degree of discretion;
- substantial gaps in the regulatory structure may be created by the delay or absence of regulations implementing certain legislation;
- there is a lack of judicial and administrative guidance on interpreting applicable rules and limited precedential value of judicial decisions;
- Russia has a judiciary with limited experience in interpreting and applying market-oriented legislation and which is vulnerable to economic and political influence; and
- Russia has weak enforcement procedures for court judgments and there is no guarantee that a foreign investor will obtain effective redress in a Russian court.

Because of the developing nature of Russia's legal and regulatory framework regarding property ownership and securities, there exists a significant risk that Gazprom's ability to attract future investment from international capital markets may be limited. Some of the issues that cause this risk include:

- Russia's securities registration system is less developed than in other countries;
- Russia's regulatory environment is uncertain, which could expose Gazprom to increased costs and hinder its ability to operate its business;
- Russia's tax system gives rise to significant uncertainties and risks that may complicate Gazprom's tax planning and business decisions; and
- Russia has restrictive currency regulations which have in the recent past and may in the future interfere with Gazprom's ability to conduct routine business transactions and attract investment.

Exchange Rates, Exchange Controls and Repatriation Restrictions

In recent years, the Rouble has experienced a significant depreciation relative to the dollar and there has been significant instability in the Rouble exchange rate. See "Exchange Rates and Exchange Controls".

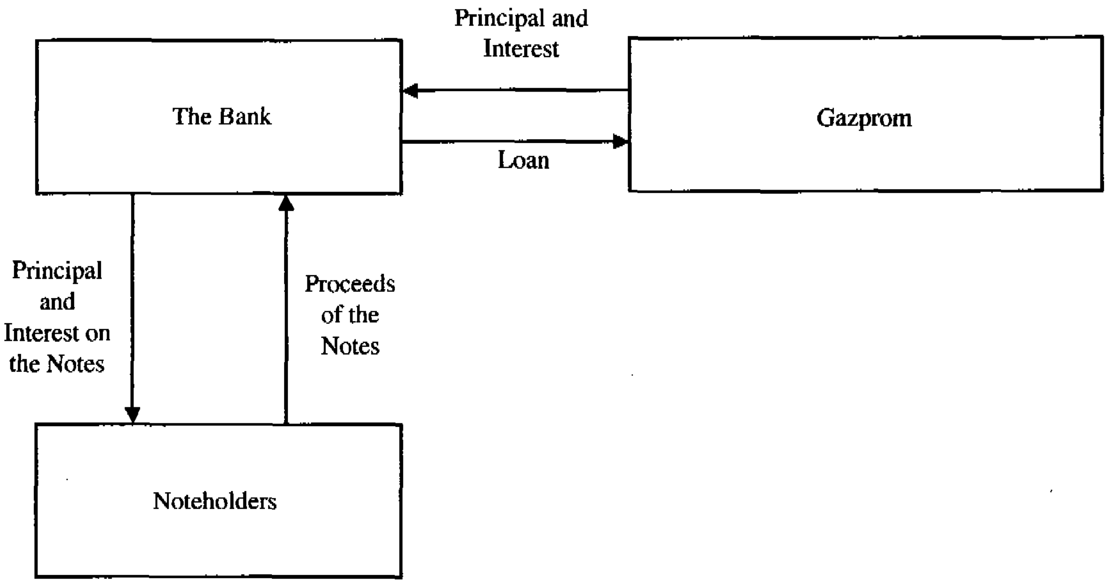
The Rouble is generally not convertible outside of Russia. A market exists within Russia for the conversion of Roubles into other currencies, but it is limited in size and is subject to rules limiting such conversion. There can be no assurance that such a market will continue indefinitely. Current Russian law permits Gazprom to convert its Roubles into foreign currency to make payments to meet its financial obligations but there can be no guarantee that such conversion will be permitted in the future. Moreover, the banking system in Russia is not yet fully developed and considerable delays may occur in the transfer of funds within, and the remittance of funds out of, Russia.

Investment Consideration Relating to the German Insolvency Code

Clause 4.1 of the Trust Deed provides for an English law charge in favour of the Trustee for the benefit of the Noteholders over certain amounts as well as certain claims and other rights of the Bank under the Loan. Section 166(2) of the German Insolvency Code which came into force on 1 January 1999 provides that receivables assigned for security purposes may not, after opening of insolvency proceedings involving the assignor, be enforced by the assignee but by the insolvency administrator, which will be entitled to deduct from the enforcement proceeds up to 9% as fees plus value added tax thereon. This Section 166(2) may affect the security given pursuant to Clause 4.1 of the Trust Deed, since it cannot be excluded that a German court will not hold that an English law charge should be subject to such Section 166(2).

TRANSACTION SUMMARY

The transaction will be structured as a loan to Gazprom by the Bank. The Bank will issue Notes to Noteholders for the sole purpose of funding the Loan. The Notes will be constituted by a trust deed (the "Trust Deed") to be entered into between the Bank and The Bank of New York (the "Trustee"). Pursuant to the Trust Deed the Bank will charge by way of first fixed charge as security certain of its rights and interests under the Loan (other than certain Reserved Rights, as defined in the Trust Deed) to the Trustee for the benefit of the Noteholders and will transfer its administrative rights under the Loan Agreement to the Trustee as security (the "Security Interests") for its payment obligations in respect of the Notes. As a consequence of the transfer of the administrative rights under the Loan Agreement the Trustee shall assume the administrative rights of the Bank as set out in the relevant provisions of the Trust Deed. If and when the first fixed charge of certain of the Bank's rights and interests under the loan is enforced, the Trustee will assume the rights of the Bank under the Loan as set out in the relevant provisions of the Trust Deed, and the Trustee will assume certain rights and obligations towards the Noteholders, as more fully set out in the Trust Deed. This offering is made on a limited recourse basis and the Bank will not have any obligations to the Noteholders save for to account to the Noteholders for amounts equivalent to the amounts of payments of principal and interest under the Loan if and to the extent received from Gazprom.



SUMMARY INFORMATION

Gazprom is the world's largest natural gas company in terms of reserves, transportation and production volumes. As at 31 December 2001, wholly-owned Gazprom subsidiaries held production licences for 26.0 tcm of A, B and C_1 natural gas reserves (classified in accordance with Russian standards: see Appendix B – Part I – "Overview of the Russian Gas Industry and its Regulation") and subsidiaries, in which Gazprom holds less than 100% of the Shares, held production licences for another 5.0 tcm of A, B and C_1 natural gas reserves, of which 2.1 tcm is attributable to Gazprom in proportion to its actual shareholding. The Group's total A, B and C_1 natural gas reserves of 28.1 tcm are equivalent to approximately 60% of Russia's estimated total for such reserves. In addition, as at 31 December 2001, Gazprom through its wholly owned subsidiaries or through subsidiaries, in which Gazprom holds less than 100% of the Shares, held production licences for approximately 1,293.8 million tonnes of A, B and C_1 gas condensate (which represents approximately two thirds of such reserves in Russia) and 584.6 million tonnes of A, B and C_1 oil reserves (in proportion to Gazprom's actual shareholding).

Gazprom's subsidiaries produced a total of 512.0 bcm of natural gas in 2001 (compared to 523.2 bcm in 2000), and this amounted to approximately 88.1% of Russia's natural gas production in that year. As at 31 December 2001, the Group's total number of wells consisted of 9,302 natural gas wells and 569 oil wells.

Gazprom owns and operates the UGSS, a single centrally controlled system for natural gas production, processing, transportation, storage and deliveries. The UGSS includes the world's largest high pressure trunk pipeline system. The network is powered by 253 compressor stations with a total capacity of approximately 42,600 megawatts. The pipeline network (of approximately 150,000 km) is the most critical link in the system delivering natural gas to consumers within Russia and abroad. Seasonal peak loads are levelled off using 22 underground natural gas storage facilities with an active storage capacity of approximately 57.9 bcm. Gazprom's dispatch management centre, located in Moscow, controls and manages the transportation of gas in Russia.

Gazprom is the largest supplier of natural gas to Europe. Its market share (according to CEDIGAZ — "Natural Gas in the World — 2001", Survey July 2001) in the European natural gas market was 25.9% in 2000. Gazprom also supplies most of the natural gas consumed in Russia and certain countries in the FSU. In 2001, Gazprom exported 127.0 bcm of natural gas to Europe. A further 39.60 bcm of natural gas was exported to the FSU. Deliveries of natural gas to Russian consumers in 2001 amounted to 278.9 bcm.

Revenue from natural gas exports to Europe for the year ended 31 December 2000 amounted to U.S.$15.5 billion (including excise tax but net of VAT) (compared to U.S.$9.9 billion for the year ended 31 December 1999). Sales of natural gas in the FSU market for the year ended 31 December 2000 account for the revenue of U.S.$2.3 billion (including excise tax but net of VAT) as compared to U.S.$2.5 billion for the year ended 31 December 1999. Revenue from natural gas sales in Russia for the year ended 31 December 2000 totalled U.S.$3.3 billion (including excise tax but net of VAT) (compared to U.S.$3.6 billion for the year ended 31 December 1999).

The U.S.$ amounts are provided for convenience only and should not be construed as representations that the Rouble amounts have been or could be converted into U.S.$ at that or any other rate or as being representative of U.S.$ amounts that would have resulted if Gazprom reported its IAS financial statements in U.S.$.

SELECTED FINANCIAL INFORMATION

The summary consolidated financial information set out below has been derived from Gazprom's unaudited consolidated financial statements for the nine months ended 30 September 2001 (the latest unaudited "Interim Data") and the audited consolidated financial statements as for the years ended 31 December 2000, 1999 and 1998 (the latest audited "Annual Data"), prepared in accordance with IAS.

The Interim Data is not necessarily indicative of the results that may be expected for the full year.

The Annual Data relating to the statement of operations data for 2000, 1999 and 1998 and to the balance sheet data at 31 December 2000, 1999 and 1998 have been extracted without material adjustment from, and should be read in conjunction with, the 2000 and 1999 Consolidated Financial Statements set out elsewhere in this Offering Circular, restated in terms of the equivalent purchasing power of the Rouble at 30 September 2001.

Balance Sheet Data	30 September 2001 in US$ millions (1)(3)	30 September 2001 in RR millions(2)(3)	31 December 2000 in U.S.$ millions (1)	31 December 2000 in RR millions (2)	31 December 1999 in U.S.$ millions (1)	31 December 1999 in RR millions (2)	31 December 1998 in U.S.$ millions (1)	31 December 1998 in RR millions (2)
Accounts receivable and prepayments	9,404	276,369	10,297	302,629	10,250	301,248	11,495	337,845
Property, plant and equipment	50,040	1,470,683	49,731	1,461,595	49,489	1,454,472	48,128	1,414,494
All other assets	11,937	350,821	12,944	380,425	9,083	266,961	9,156	269,077
Total assets	71,381	2,097,873	72,972	2,144,649	68,822	2,022,681	68,779	2,021,416
Accounts payable and accrued charges, short-term loans and current portion of long-term borrowings (including promissory notes)	10,457	307,339	9,885	290,514	7,881	231,633	6,111	179,598
Taxes payable	2,600	76,413	4,443	130,593	6,272	184,342	6,311	185,490
Long-term borrowings (including promissory notes)	7,059	207,462	8,192	240,750	10,883	319,841	11,766	345,789
All other liabilities	1,614	47,408	1,650	48,481	5,775	169,712	2,790	82,015
Minority interest in subsidiaries	379	11,134	338	9,940	288	8,466	221	6,493
Shareholders equity and reserves	49,272	1,448,117	48,464	1,424,371	37,723	1,108,687	41,580	1,222,031
Total liabilities and equity	71,381	2,097,873	72,972	2,144,649	68,822	2,022,681	68,779	2,021,416

Statement of Operations	9 months ended 30 September 2001 in US$ millions(1)(3)	9 months ended 30 September 2001 in RR millions(2)(3)	Year ended 31 December 2000 in U.S.$ millions (1)	Year ended 31 December 2000 in RR millions(2)	Year ended 31 December 1999 in U.S.$ millions (1)	Year ended 31 December 1999 in RUR millions(2)	Year ended 31 December 1998 in U.S.$ millions (1)	Year ended 31 December 1998 in RR millions(2)
Sales and share of net income (losses) of associated undertakings	15,179	446,126	20,980	616,604	15,510	455,849	16,090	472,884
Operating expenses	(9,620)	(282,746)	(15,869)	(466,389)	(14,447)	(424,584)	(18,760)	(551,346)
Operating profit (loss)	5,559	163,380	5,111	150,215	1,063	31,265	(2,670)	(78,462)
Net finance costs	(517)	(15,209)	(714)	(20,989)	(2,554)	(75,075)	(8,636)	(253,811)
Losses on available-for-sale investments	(83)	(2,437)	—	—	—	—	—	—
Profit (loss) before gain on net monetary position, profit tax and minority interest	4,959	145,734	4,397	129,226	(1,491)	(43,810)	(11,306)	(332,273)
Monetary gain	784	23,042	1,587	46,647	2,389	70,220	4,007	117,771
Current Profit tax expense	(2,502)	(73,521)	(2,687)	(78,961)	(1,145)	(33,658)	(872)	(25,629)
Deferred Profit tax benefit (expense)	(2,194)	(64,484)	7,868	231,228	(3,441)	(101,140)	(1,432)	(42,100)
Minority interest	54	1,578	(59)	(1,730)	(9)	(251)	227	6,668
Net profit (loss)	1,101	32,349	11,106	326,410	(3,697)	(108,639)	(9,376)	(275,563)
Earnings (loss) per share (in US dollars/Roubles)	0.05	1.54	0.53	15.63	(0.18)	(5.15)	(0.44)	(12.88)

Notes:

(1) The U.S.$ amounts shown above have been translated from the Rouble amounts at the rate of RUR 29.39 = U.S.$1.00, which was the rate published by the Central Bank of Russia on 30 September 2001.

(2) The selected Rouble financial data should also be read in conjunction with the more detailed consolidated financial statements set out elsewhere in this Offering Circular.

(3) Unaudited.

These U.S.$ amounts are provided for convenience only and should not be construed as representations that the Rouble amounts have been or could be converted into U.S.$ at that or any other rate or as being representative of U.S.$ amounts that would have resulted if Gazprom reported its IAS financial statements in U.S.$.

OTHER SELECTED FINANCIAL INFORMATION

The following selected financial data has been extracted, without material adjustment from, and should be read in conjunction with the Interim Data and the Annual Data.

Analysis of Gas Sales (including excise tax, net of VAT)

	9m 2001[2]				2000				1999				1998			
	(millions)															
	Europe	FSU	Russia	Total	Europe	FSU	Russia	Total	Europe	FSU	Russia	Total	Europe	FSU	Russia	Total
RUR....	325,874	33,974	79,384	439,232	454,383	66,726	98,380	619,489	291,379	73,390	104,603	469,372	255,094	71,109	198,802	525,005
U.S.$(1)..	11,088	1,156	2,701	14,945	15,460	2,270	3,347	21,077	9,914	2,497	3,559	15,970	8,680	2,419	6,764	17,863

Notes:

(1) The U.S.$ amounts shown above have been translated from the Rouble amounts at the rate of RUR 29.39 = U.S.$1.00, which was the rate published by the Central Bank of Russia on 30 September 2001.

(2) Unaudited

The U.S.$ amounts are provided for convenience only and should not be construed as representations that the Rouble amounts have been or could be converted into U.S.$ at that or any other rate or as being representative of U.S.$ amounts that would have resulted if Gazprom reported its IAS financial statements in U.S.$.

CAPITALISATION

The following table sets out Gazprom's unaudited consolidated short-term loans and current portion of long-term borrowings, long-term borrowings and shareholders' equity as at 30 September 2001 based on Gazprom's unaudited IAS consolidated financial statements for the nine-month period ended 30 September 2001, adjusted to give effect to the receipt of the Loan.

	At 30 September 2001		As adjusted
	(in millions of Roubles)(2)	(in millions of U.S.$)(1)(2)	(in millions of U.S.$)(1)(2)
Shareholders' equity:			
Share capital	271,214	9,228	9,228
Treasury shares	(10,222)	(348)	(348)
Retained earnings and other reserves	1,187,125	40,392	40,392
Total shareholders' equity	1,448,117	49,272	49,272
Short-term loans and current portion of long-term borrowings (including promissory notes)	194,629	6,622	6,622
Long-term borrowings (including promissory notes)	207,462	7,059	7,559
Total capitalisation	1,850,208	62,954	63,454

Notes:

(1) Totals may not add due to rounding. The U.S.$ amounts shown above have been translated from the Rouble amounts at the rate of RUR 29.39 = U.S.$1.00, which is the rate published by the Central Bank on 30 September 2001. These amounts are provided for convenience only and should not be construed as representations that the Rouble amounts have been or could be converted into U.S.$ at that or any other rate.

(2) Unaudited.

Consolidated cash and cash equivalents, including cash restricted from withdrawal under the terms of certain of the borrowings and under banking regulations, were RUR 60,898 million (U.S.$2,072 million).

There have been no material changes in the total capitalisation of Gazprom since 30 September 2001, other than, as at 28 February 2002, additional long-term borrowings of RUR 37,502 million (U.S.$1,276 million).

USE OF PROCEEDS

The proceeds from the offering of the Notes will be used by the Bank for the sole purpose of financing the Loan. The Loan, in principal amount of U.S.$500,000,000, which is being funded in full by the Notes, will, after meeting the costs and expenses of the offering of the Notes, be used for working capital and general corporate purposes.

OAO GAZPROM

Privatisation and Formation

Gazprom was reorganised into a joint stock company in 1993 in accordance with the Presidential Decree No. 1333 of 5 November 1992 ("Decree No. 1333"). Under Decree No. 1333, Gazprom was made responsible for ensuring the efficient operation and development of the UGSS. The UGSS had previously been the responsibility of the State Gas Concern "Gazprom", the State controlled entity charged with the task of operating and developing the UGSS prior to the 1993 reorganisation. Pursuant to Decree No. 1333 and Presidential Decree of the Russian Federation No. 2116 of 6 December 1993, Gazprom was charged with the responsibility of providing for natural gas export deliveries through Gazexport, its wholly-owned specialised foreign trade subsidiary, which became part of the State Gas Concern "Gazprom" in 1991 and was also appointed "state contractor" for natural gas exports.

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

- ensuring a reliable supply of natural gas to consumers in Russia and to foreign customers;
- conducting a co-ordinated policy for maintaining and further developing the UGSS;
- controlling the operation of the UGSS;
- financing and constructing natural gas pipelines and high pressure outlets so as to service areas of Russia where natural gas was previously unavailable; and
- providing access for any independent producer of natural gas to the transportation system in proportion to the amount of natural gas produced by such independent producer in Russia.

The original Charter of Gazprom was approved by Order No. 138 of the Council of Ministers of the Russian Federation issued on 17 February 1993 and Gazprom was registered as an open joint stock company on 25 February 1993. In 1993 and 1994 licences were issued to Gazprom, pursuant to the Subsoil Resources Law 1992, granting Gazprom rights to exploit hydrocarbon reserves.

Decree No. 1333 provided for the transfer to Gazprom of 100% of the share capital of enterprises comprising the UGSS, controlling equity stakes (not less than 51%) in a number of other entities reorganised into joint stock companies, the interests of the State Gas Concern "Gazprom" in Russian and foreign enterprises and other assets of the State Gas Concern "Gazprom", the privatisation of which was not restricted. Decree No. 1333 also provided for all rights and obligations of the State Gas Concern "Gazprom" to inure to Gazprom's benefit, including its rights to use underground deposits and natural resources, as well as its rights and obligations under the State Gas Concern "Gazprom's" contracts. Gas producing enterprises Yakutgazprom and Norilskgazprom, which used to be part of the State Gas Concern "Gazprom", were reorganised into separate and independent joint stock companies.

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

- 15.0% of Gazprom Shares to be sold by closed subscription to employees and the management of the enterprises comprising the UGSS (which had been transferred to Gazprom);
- 33.9% of Gazprom Shares to be sold to Russian individuals in return for privatisation vouchers (of which 0.87% have not been sold and remain within Federal ownership);
- 40.0% of Gazprom Shares were fixed for three years within Federal ownership;
- 1.1% of Gazprom Shares to be transferred to joint stock company "Rosgazifikatsiya" (a supplier of natural gas to end-consumers); and
- 10.0% of Gazprom Shares held in the Federal Property Fund to be purchased by Gazprom itself before 1 June 1993 at nominal value in exchange for privatisation vouchers. These were to be placed within a year in the securities market and the proceeds were to be used for the development of natural gas fields in Yamal and other regions.

Presidential Decree of the Russian Federation No. 399 of 20 March 1996 extended the original period for which 40% of Gazprom Shares were to be retained in Federal ownership by a further three years. Pursuant to Presidential Decree of the Russian Federation No. 887 of 25 July 1998, the percentage of Gazprom Shares to be retained within Federal ownership was reduced to 35%, in anticipation of the sale of 5% of the Gazprom Shares, of which 2.5% was subsequently acquired by Ruhrgas during a privatisation auction held in December 1998.

Although Gazprom's privatisation plan envisaged the sale of the other 2.5% of Gazprom Shares in the second quarter of 1999, these Gazprom Shares remained in Federal ownership, together with the 0.87% of Gazprom Shares not placed during the privatisation programme in 1993 and 1994. Accordingly, the total State share holding currently comprises 38.37% of Gazprom Shares. The Gas Supply Law states that 35% of the UGSS owner's shares (i.e. Gazprom) must be retained in Federal ownership for an indefinite period of time.

Pursuant to the terms of a trust agreement dated 20 December 1997 (the "Trust Agreement") between the Government and Gazprom, Gazprom holds 35% of the Gazprom Shares in a trust for the benefit of the Government, must keep them separate from its other assets and has certain reporting requirements. Furthermore, Gazprom may not sell, transfer or otherwise dispose of these Gazprom Shares and may not issue derivatives on or pledge these Gazprom Shares without the written approval of the Government. In the last two years Gazprom has not exercised their right to vote on behalf of the Government at any shareholder meetings, as Government representatives had exercised the right to vote their 35% shareholding themselves. In addition, Gazprom Shares could not be voted on certain major issues (including the election of members of the Board of Directors) without the written approval of the Government. The Trust Agreement was originally valid until 31 March 1999 but its term was extended on a rolling one-year basis until such time as either Gazprom or the Government provide notice to the other party that they wish to amend or terminate the Trust Agreement. As at the date of this Offering Circular no such notice had been given by either party.

However, these Gazprom Shares were never transferred to Gazprom as "trust manager" in Gazprom's share register and are currently voted by representatives of the Government. Pursuant to Article 6 of the Federal Law "On Privatisation of State Property and Principles of Municipal Property privatisation in the Russian Federation" No. 123-FZ dated 21 July 1997 (as amended), the Government proposes candidates to the Board of Directors and Audit Commission, to be approved by a General Meeting of Shareholders. The Government also appoints representatives at General Meetings of Shareholders who are obliged to act in accordance with the directions of the Government. Currently, there are six Government representatives on the Board of Directors who can be replaced by the Government at any time.

Gazprom's name was changed from RAO Gazprom to OAO Gazprom by a shareholders' resolution passed on 26 June 1998.

Shareholding Structure

Currently, Gazprom's charter capital is RUR 118,367,564,500, consisting of 23,673,512,900 shares with a nominal value RUR 5 each.

Pursuant to Government Resolution No. 654 of 30 May 1997, Gazprom's shares are traded in Russia on the Moscow Stock Exchange, the St. Petersburg Stock Exchange, the Yekaterinburg Stock Exchange and the Siberian Stock Exchange.

Gazprom has held annual and extraordinary shareholders meetings since 1995. The number of shareholders has decreased from approximately 1,030,000 in 1995 to approximately 537,000 as at 30 June 2001.

In accordance with the Presidential Decree of the Russian Federation No. 529 of 28 May 1997, foreign equity participation (as defined in Decree No. 529) in Gazprom was restricted to 9% of the Gazprom Shares. The Presidential Decree of the Russian Federation No. 943 of 10 August 1998 authorised the sale of a further 5% of Gazprom Shares to foreign shareholders. In fact, only 2.5% out of the 5% authorised was actually sold and therefore foreign equity participation is currently limited to 11.5% of Gazprom's Shares. The Gas Supply Law provides that the share of foreign individuals and organisations in the charter capital of Gazprom may not exceed 20%.

In 1996, Gazprom placed shares representing 1.98% of its charter capital on the foreign markets in the form of American Depository Shares ("ADS"). Due to the restrictions on foreign equity ownership (which prevents the purchase of Gazprom Shares by foreign participants in the domestic market), the issue of ADSs created a dual market in Gazprom Shares, with the ADSs trading at a substantial premium over the Gazprom Shares in the domestic market. In 1999, Ruhrgas acquired a further 1% of Gazprom Shares in the form of ADSs and between December 2000 and January 2001 an additional 1.44% of Gazprom's Shares were sold to foreign investors in the form of ADSs. Gazprom ADSs are currently listed on the London Stock Exchange.

President Putin has established a working group to look at ways in which to liberalise the current dual market in Gazprom Shares.

The following table summarises Gazprom's shareholding structure as at 31 December 2001.

Shareholders	%
Russian Federation	38.37
Russian shareholders	50.13
Foreign shareholders	11.50
Gazprom Shares(1)	7.08
ADS(2)	4.42
Total	100.00

Notes:

(1) Including 4.58% held by Gazprom Finance B.V., Gazprom's wholly-owned financial vehicle. This shareholding is intended to be used to secure Gazprom's liabilities and issue derivative financial instruments. Also including a 2.5% shareholding acquired by Ruhrgas at a privatisation auction which was held pursuant to Presidential Decree No. 1316 of 31 October 1998.

(2) Including a 1% shareholding acquired by Ruhrgas.

Among the Russian shareholders owning more than 5% of Gazprom Shares is Stroytransgaz, a Russian construction company which is often engaged by Gazprom for various construction projects (see "Business—Transportation"). These shares were acquired by Stroytransgaz from Gazprom, who had bought these shares as part of the 1995 Government authorised sale of 10% of Gazprom's Shares to Gazprom. Gazprom paid for the shares in privatisation vouchers at the then effective nominal value. Stroytransgaz acquired 4.8% of Gazprom Shares in 1995 as part of the settlement of a debt owed by Gazprom to Stroytransgaz for various construction services rendered. The effective price paid by Stroytransgaz for the shares was equal to the average 1995 privatisation sale price. The remaining balance of the 10% of Gazprom Shares authorised for sale by the Government was acquired by Gazprombank and Gazfund.

As at 30 September 2001 (the last available accounts), certain members of the Board of Directors and close members of their families owned significant shareholdings in Stroytransgaz.

Corporate Structure

In accordance with the Government's current policy of maintaining an integrated natural gas industry, Gazprom owns all of the transportation assets necessary for the operation of the UGSS. Furthermore, its subsidiaries have the right to develop a substantial portion of Russia's natural gas and gas condensate reserves and certain of its oil reserves. Gazprom operates in and outside of Russia through a number of limited liability and joint stock companies, either wholly or majority owned by Gazprom.

Gazprom's head office, located in Moscow, exercises a substantial degree of managerial and financial control over the operations of Gazprom's subsidiaries. Head office functions include strategy, planning, external financing, financial reporting, allocation of financial resources within the Group for the purposes of capital expenditure and supervision of principal areas of operations, such as construction, drilling, transportation, natural gas sales in the FSU and equipment procurement.

Gazprom's wholly and majority owned subsidiaries are also engaged in engineering, research, non-core production activities and non-core construction activities supporting the operation of the UGSS as well as other commercial activities, including banking (see "Investment in Non-Core Activities"). Gazprom also participates in a number of natural gas transportation and marketing joint ventures involving foreign partners (see "International Projects and Alliances").

The dispatch management centre, based at the head office, continuously monitors, controls and manages Gazprom's natural gas transportation system throughout Russia. Operational information, including data on produced and transported natural gas volumes, is also processed at the head office. Gazprom's internal financial reporting systems provide for the preparation of consolidated accounts and for the monitoring of cash receipts and cash requirements of the Group companies.

Gazprom's natural gas production subsidiaries are engaged in the development and operation of natural gas fields and related natural gas processing facilities. The four principal wholly-owned natural gas production subsidiaries, Urengoygazprom, Yamburggazdobycha, Nadymgazprom and Noyabrskgazdobycha, are located in Western Siberia. Together they accounted for 92.5% of the Group's total natural gas production in 2001. Drilling and exploration operations are carried out by Gazprom's subsidiary, Burgaz.

Gazprom's natural gas transportation subsidiaries are responsible for the transportation of natural gas along trunk pipelines and the supply of natural gas to customers within their respective regions. Presently, there are a total of 17 wholly-owned natural gas transportation subsidiaries, of which four are also engaged in natural gas production and/or processing.

Other subsidiaries of Gazprom are responsible for a number of other functions, including technical supervision of the pipeline systems, research and development, data processing, banking and procurement.

Currently, Gazprom wholly owns 57 subsidiaries, has an interest of greater than 50% in 45 entities and an equity interest of between 21% and 50% (inclusive) in 38 other entities. Gazexport holds interests in a number of foreign joint ventures.

Gazprom's main subsidiaries were, as at 31 December 2000, as follows:

Subsidiary	Principal Activity	Gazprom's Direct Shareholding
Astrakhangazprom	Production of hydrocarbons	100%
Bashtransgaz	Gas transportation	100%
Burgaz	Exploration, construction of oil and natural gas wells	100%
VNIIGAZ	Research and development	100%
Volgogradtransgaz	Gas transportation	100%
Volgotransgaz	Gas transportation	100%
Gazkomplektimpex	Procurement and logistics	100%
Gaznadzor	Supervision of compliance of wells operation technology	100%
Gazobezopasnost	Gas safety supervision	100%
Gazpromavia	Air freight	100%
Gazprominvestholding	Investment and finance activity	100%
Gazprom-Media	Media Holding Company	100%
Gazprom Finance B.V.	Financial and investment activity	100%
Gaztorgpromstroy	Trading of the agricultural products and consumer goods	100%
Gazflot	Shipping	100%
Gazfund	Pension Fund	100%
Gazexport	Foreign trade	100%
Gazsvyaz	Operation of telecommunication facilities	100%
Zarubezhgaz Erdgashandel GmbH ("ZGG")	Holding company representing interests of the Group in a number of gas sale and gas transportation companies in Central Europe	100%
Informgaz	Working out information technologies	100%
IRC Gazprom	Advertising and publishing activity	100%
Kavkaztransgaz	Gas transportation	100%
Kaspiygazprom	Gas exploration, production and transportation	100%
Kubangazprom	Gas production and transportation	100%
Lentransgaz	Gas transportation	100%
Mezhregiongaz	Gas supplies to Russian consumers	100%
Mostransgaz	Gas transportation	100%

Subsidiary	Principal Activity	Gazprom's Direct Shareholding
Nadymgazprom	Production of hydrocarbons	100%
Nadymstroygazdobycha	Production of hydrocarbons	100%
Novourengoy Gaz Chemical Complex	Hydrocarbons processing	100%
Noyabrskgazdobycha	Production of hydrocarbons	100%
Orenburggazprom	Production of hydrocarbons	100%
Permtransgaz	Gas transportation	100%
Samaratransgaz	Gas transportation	100%
Severgazprom	Gas production, processing and transportation	100%
Servisgazprom	Exploitation of buildings, material and technical supply	100%
Szhizhennyi gaz	Realisation of liquefied gas	100%
Surgutgazprom	Gas processing and transportation	100%
Tattransgaz	Gas transportation	100%
Tomsktransgaz	Gas transportation	100%
Tyumenniigiprogaz	Research and development	100%
Tyumentransgaz	Gas transportation	100%
Ulyanovskgazservice	Gas transportation	100%
Uraltransgaz	Gas transportation	100%
Urengoygazprom	Production of hydrocarbons	100%
Yamalgazinvest	Yamal project implementation	100%
Yamburggazdobycha	Production of hydrocarbons	100%
Yugtransgaz	Gas transportation	100%

All of these subsidiaries are incorporated in the Russian Federation, with the exception of Gazprom Finance B.V. and ZGG, which are incorporated in The Netherlands and Germany, respectively. Gazprom Finance B.V. was established in February 1999 for the purpose of obtaining financing for the Group outside Russia. ZGG acts as the holding company for the Group's interests in a number of gas distribution, storage and transportation companies operating in Central Europe.

Other subsidiary undertakings

Subsidiary	Principal Activity	Percent of share capital held at 31 December 2000
		%
Gazavtomatika	Science	51
Gazenergoservice	Equipment repairs	51
Gazprombank	Banking	97
Gazsibcontract	Investing, trading	51
Kostromatrubinvest	Production and sale of pipes	99
Lebedinsky GOK	Industry	57
National Reserve Bank	Banking	40
Spetsgazavtotrans	Transport services	51
Volgogradneftemash	Production of oil and gas refinery equipment	51
Vostokgazprom	Production, processing and sale of gas and gas condensate	63
Zapsibgazprom	Construction	34

The Group's interest in the equity capital of National Reserve Bank is 40.2% and in OAO Zapsibgazprom is 33.9%. However, as the principal shareholder, the Group continues to exercise effective control over the activities of the above companies and they are still considered as subsidiaries.

As at 30 September 2001, the principal subsidiaries of the Group remained unchanged since 31 December 2000 except for the changes disclosed below.

In January 2001, Gazprom acquired 51% of the voting shares of AK Sibur, a leading seller in Russia of hydrocarbons and producer of chemicals. With effect from 1 January 2001, AK Sibur was consolidated into the accounts of the Group. On 25 March 2002 a shareholders meeting of AK Sibur cancelled a proposed issue of shares of AK Sibur which would have diluted Gazprom's shareholding in AK Sibur.

In January 2001, Gazprom exchanged its 57% interest in Lebedinsky GOK and 17% interest in Oskolsky EMK for a 48% interest in ZAO Gazmetall. ZAO Gazmetall is a metallurgical holding company with controlling interests in Lebedinsky GOK and Oskolsky EMK.

Management Structure

In accordance with Russian Joint Stock Companies Law and Gazprom's Charter, Gazprom's governing bodies are the General Meeting of Shareholders, the Board of Directors, the Management Committee and the Management Committee Chairman.

The General Meeting of Shareholders is Gazprom's highest governing body and has exclusive power over amendments to the Charter, the reorganisation or liquidation of Gazprom, the election of individuals to the Board of Directors and to the Audit Commission (responsible for control over Gazprom's business and financial activities), determination of the maximum amount of authorised shares, increases to the charter capital (where 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, determination of whether or not Gazprom is to enter into major transactions (the value of which exceeds 50% of the total value of Gazprom's assets) and approval of certain "interested party" transactions, as defined in Article 81 of the Federal Law "On Joint Stock Companies" No. 208-FZ dated 26 December 1995 (the "Joint Stock Companies Law").

The Board of Directors oversees Gazprom's business activities and consists of eleven members, including six members who hold positions in government bodies, two non-executive Directors, one representative of Ruhrgas, one representative of Gazprombank and one member of the Management Committee.

Gazprom's Board of Directors is responsible for the general management of Gazprom, except for those matters which, by law, are within the exclusive powers of the General Meeting of Shareholders. The Board of Directors has certain powers that are within its jurisdiction. These include the power to determine the priorities of Gazprom's operations; 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 the charter capital of Gazprom (except where such increase is within the competence of the General Meeting of Shareholders); to issue bonds or other securities; to appoint the executive bodies of Gazprom (i.e. the Management Committee and the Chairman of the Management Committee); to decide on early termination of the powers of these bodies; to determine the remuneration of Management Committee members; to recommend dividends; to use the reserve fund and other funds; to open branch and representative offices; to adopt decisions on major transactions and certain "interested party" transactions; to approve a contract with any person that may be vested with the powers of Gazprom's executive body; and to approve the Regulations of the Management Committee.

Members of the Board of Directors are elected by the Shareholders through a system of cumulative voting for terms of one year 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.

The Management Committee and the Chairman of the Management Committee are the executive bodies that manage Gazprom's day-to-day affairs. Members of the Management Committee are appointed by the Board of Directors for a period 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 powers and jurisdiction of the Management Committee include the preparation and submission of Gazprom's long-term projects and strategic programmes to the Board of Directors; management of natural gas flows and supervision of the operation of the UGSS; decisions on the financing of production, scientific, technical, social, and environmental programmes; approval of regulations relating to secondary market trading in Gazprom Shares; and the timely submission of annual reports and other financial information to all relevant federal, regional and local authorities.

The Chairman of the Management Committee may act on behalf of Gazprom *ex officio* without a power of attorney. He may issue orders and other internal documents, approve staff schedules, decide when to convene and hold meetings of the Management Committee and address any questions that do not fall within the exclusive jurisdiction of the General Meeting of Shareholders, the Board of Directors or the Management Committee.

The Management Committee meets at least twice every month in accordance with a schedule which is approved by the Chairman of the Management Committee.

In practice, the Board of Directors is responsible for formulating Gazprom's strategy, and the Management Committee is responsible for implementing such plans and managing Gazprom on a day-to-day basis.

As at the date of this Offering Circular the membership of the Board of Directors was as follows:

Name	Year of Birth	Position
R. Vyakhirev	1934	Chairman of the Board of Directors
D. Medvedev	1965	Deputy Chairman of the Board of Directors, First Deputy Chief of the Presidential Administration of the Russian Federation
B. Bergmann	1943	Chairman of the Management Committee of Ruhrgas
B. Fedorov	1958	Leader of the political movement "Russia, Ahead!"
F. Gazizullin	1946	Minister of Property Relations of the Russian Federation
G. Gref	1964	Minister for Economic Development and Trade of the Russian Federation
V. Hristenko	1957	Deputy Prime Minister of the Russian Federation
A. Levistskaya	1954	First Deputy of the Russian Government Administration
V. Sheremet	1941	First Deputy Chairman of Gazprom's Management Committee
V. Tarasov	1940	Chairman of the Management Committee of Gazprombank; President of Non-Governmental Pension Fund Gazfund
I. Yuzhanov	1960	Minister of Antimonopoly Policy and Entrepreneurial Support of the Russian Federation

The current membership of Gazprom's Management Committee is as follows:

Name	Year of Birth	Position
A. Miller	1962	Chairman of the Management Committee
V. Sheremet	1941	First Deputy Chairman of the Management Committee
A. Ananenkov	1952	Deputy Chairman of the Management Committee
E. Vasilieva	1959	Deputy Chairman of the Management Committee; Chief Accountant
N. Guslisty	1933	Deputy Chairman of the Management Committee
Y. Komarov	1945	Deputy Chairman of the Management Committee
S. Lukash	1957	Deputy Chairman of the Management Committee
A. Ryazanov	1953	Deputy Chairman of the Management Committee
V. Saveliev	1954	Deputy Chairman of the Management Committee
M. Akselrod	1946	Management Committee Member (Capital Construction and Equipment and Technical Supplies)
B. Budzulyak	1946	Management Committee Member (Transportation System)
M. Dokuchayev	1958	Management Committee Member
V. Ilyushin	1947	Management Committee Member (Relationships with Regional Authorities)
A. Krasnenkov	1961	Management Committee Member (Property Management)
B. Nikitin	1940	Management Committee Member (Off-Shore Fields Developing)
N. Gornovsky	1958	Management Committee Member, Mezhregiongas General Director
V. Podyuk	1946	Management Committee Member (Gas and Hydrocarbons Production & Processing)
V. Rezunenko	1935	Management Committee Member (Long-Term Development Planning)
A. Semenyaka	1965	Management Committee Member (Corporate Financing)
V. Fadeyev	1939	Management Committee Member (Sales of Gas, Gas Condensate and Oil in Russia and the FSU)

The cumulative direct ownership of shares by the members of Gazprom's Management Board and the Board of Directors in Gazprom Shares is 0.037% and 0.025%, respectively.

Employees

In 2001, Gazprom's work force broken down by area of employment was as follows(1):

Type of Activities	Number of Employees
Construction	29,943
Exploration and drilling	15,224
Gas transportation	107,363
Production and processing	46,026
Other	118,713
Total	317,269

(1) These figures represent average employee count for the year 2001.

Principal Markets

Overview

Gazprom is the world's largest exporter of natural gas. Gazprom exports natural gas through its wholly-owned trading subsidiary, Gazexport, on an agency basis. Exports of gas condensate, oil and oil products are also made through Gazexport.

Gazprom is currently the only supplier of Russian natural gas to Europe. According to CEDIGAZ— "Natural Gas in the World — 2001", Survey July 2001, it supplied 20.9% of natural gas consumed in Western Europe and 57.3% of natural gas consumed in Central and Eastern Europe in 2000. In 2001, Gazprom delivered 127.0 bcm of natural gas to Europe of which Western Europe accounted for 86.6 bcm and Central and Eastern Europe accounted for 40.4 bcm. Germany, Italy, France, Turkey, the Czech Republic, Slovakia, Hungary, Poland, Austria and Finland accounted for Gazprom's largest export markets in Europe. Gazprom is actively looking to increase its European exports through investments in joint ventures, such as Wingas in Germany and Gazum in Finland (see "International Projects and Alliances").

In 2001, Gazprom supplied substantially all of the natural gas consumed in Russia and a significant amount of the natural gas consumed in the Ukraine, Belarus, Moldova, Lithuania, Latvia and Estonia. Natural gas deliveries to consumers in Russia and to countries in the FSU accounted for 278.9 bcm and 39.6 bcm of natural gas in 2001, respectively. The Ukraine and Belarus are the largest consumers of natural gas supplied by Gazprom in the FSU.

The following table sets out Gazprom's natural gas deliveries by geographical market.

Gas Deliveries	Year Ended 31 December		
	1999	2000	2001
	(bcm)	*(bcm)*	*(bcm)*
Western Europe	88.4	90.4	86.6
Central and Eastern Europe	38.4	38.6	40.4
Total Europe	126.8	129.0	127.0
FSU	47.2	43.4	39.6
Russia	260.1	255.0	278.9
Total Russia and FSU	307.3	298.4	318.5
Total	434.1	427.4	445.5

Source: Gazprom.

Industry experts believe that natural gas is gaining an increasing share of the world energy market as a result of it being an effective and environmentally clean fuel. According to the BP Statistical Review of World Energy (June 2001), natural gas consumption, as a percentage of energy consumption in Western Europe, has increased in recent years and Gazprom expects this trend to continue. This is primarily due to its attractiveness as a controllable and reliable fuel, the growth in natural gas-fired power generating capacity, an increase in the use of natural gas in the domestic sector (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 2000, natural gas consumption accounted for approximately 22.9% of energy consumption in Western Europe and approximately 22.5% in Central and Eastern Europe.

The following table sets forth energy and natural gas consumption in Gazprom's principal markets for the period from 1998 to 2000 as well as the percentage of natural gas consumed as a proportion of total energy in such markets for each year.

	1998	1999	2000
	(mtoe, except for percentages)		
Western Europe(1)			
Energy consumption(2)	1534.8	1542.1	1561.2
Gas consumption	328.2	344.1	358.1
Gas consumption as a percentage of primary energy consumption(3)	21.4%	22.3%	22.9%
Central and Eastern Europe(4)			
Energy consumption	232.9	221.8	221.2
Gas consumption	52.6	51.0	49.8
Gas consumption as a percentage of energy consumption	22.6%	23.0%	22.5%
FSU			
Energy consumption	297.4	293.0	296.2
Gas consumption	148.5	153.3	153.9
Gas consumption as a percentage of energy consumption	49.9%	52.3%	52.0%
Russia			
Energy consumption	595.2	606.8	621.3
Gas consumption	328.3	326.4	339.5
Gas consumption as a percentage of energy consumption	55.2%	53.8%	54.6%

Source: BP Statistical Review of World Energy (June 2001).

(1) Defined for the purposes of this summary as the following countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Luxembourg, Republic of Ireland, Italy, The Netherlands, Norway, Portugal, Spain, Switzerland, Sweden, Turkey and the United Kingdom.

(2) Energy consumption comprises commercially traded fuels only.

(3) Oil, gas, nuclear, hydroelectric and coal.

(4) Defined for the purposes of this summary as the following countries: Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia.

According to the BP Statistical Review of World Energy (June 2001), natural gas consumption in Western Europe increased by 4.8% from 1998 to 1999 and by 4.1% from 1999 to 2000. It also increased as a percentage of primary energy consumption during both of these years. In 2000, natural gas consumption as a percentage of primary energy consumption ranged from 2.0% in Sweden to 40.5% in The Netherlands. Germany and Italy, Gazprom's major Western European markets, are among the most gas user intensive countries in Western Europe, with gas accounting for 21.6% and 34.6% respectively, of their total energy consumption in 2000. The proportion of gas to total energy consumption in Western Europe is projected by the International Energy Agency to continue to increase.

Energy consumption in Central and Eastern European markets decreased by 5.0% from 1998 to 2000 and natural gas consumption decreased by 5.3% over the same period.

Gas consumption in Russia and the FSU represented 22.8% of worldwide natural gas consumption in 2000. In the FSU, energy consumption decreased by 0.4% from 1998 to 2000 and gas consumption increased by 3.6% during the same period. In Russia, overall energy consumption increased by 4.4%, whilst natural gas consumption increased by 3.4% from 1998 to 2000. The proportion of natural gas to total energy consumption decreased in Russia and increased in the FSU over the same period by 0.6% and 2.1% respectively.

Western Europe

Gazprom operates in the international gas markets through Gazexport. In 2001, Gazprom exported 86.6 bcm of natural gas to Western Europe (compared to 90.4 bcm in 2000) which represented 19.4% of Gazprom's total natural gas supplies in 2001.

The following table sets out Gazprom's natural gas export volumes to Western Europe for the years 1999 to 2001:

Country	1999 (bcm)	2000 (bcm)	2001 (bcm)
Germany	34.9	34.1	32.6
Italy	19.8	21.8	20.2
France	13.4	12.9	11.2
Turkey(1)	8.9	10.2	11.1
Austria	5.4	5.1	4.9
Finland	4.2	4.3	4.6
Greece	1.5	1.6	1.5
Switzerland	0.4	0.4	0.3
Total(2)	88.4	90.4	86.6

Source: Gazprom.

(1) Included amongst Western Europe for the purpose of this table.

(2) Totals may not add up due to rounding.

Gazprom and its predecessors have delivered natural gas to Western Europe since the late 1960s providing Gazprom with a significant amount of commercial experience in the region. Gazprom, acting through Gazexport, supplies natural gas to its 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 7 years and 24 years. The majority of these contracts contain similar features, including take-or-pay clauses and price setting mechanisms, mostly based on European petroleum product prices, and do not allow for unilateral termination, except in cases of prolonged force majeure. Certain contracts (although not the majority), prohibit the re-export of natural gas. Currently, Gazprom's principal Western European customers are Ruhrgas (Germany), WIEH/Wingas (Germany), SNAM (Italy), Gaz de France (France), OMV (Austria) and Botas (Turkey). Gazprom is paid in foreign currency for the natural gas it sells in Western Europe.

In the opinion of Gazprom's management, one of the most promising and fastest growing export markets is Turkey, where natural gas consumption amounted to approximately 15.0 bcm in 2000, of which Gazprom exports accounted for 10.2 bcm, or 69% of the total natural gas consumption. According to estimates of the Turkish natural gas company Botas, Turkish natural gas consumption will reach 55.0 bcm by 2010 and 82.7 bcm a year by 2020. Gazprom's natural gas exports to Turkey are delivered via the Transbalkan Pipeline through the Ukraine, Romania and Bulgaria (see "International Projects and Alliances").

During recent years, Gazprom has negotiated a number of agreements which are expected to result in increased exports to Western Europe. In particular, between 1998 and 2000, new contracts were entered into with Gasunie (The Netherlands) for annual deliveries of 4 bcm (within the plateau period as set out in and as defined in the relevant contract) from 2001 until 2021; with Wingas (Germany) for annual deliveries of 4 bcm (within the plateau period as set out in and as defined in the relevant contract) from 1999 until 2023, plus an additional 1.8 bcm annually from 2000 until 2016; with Ruhrgas (Germany) for annual deliveries of 1.5 bcm from 2000 until 2010; and with Fragaz (France) for annual deliveries of up to 2.0 bcm from 1999 until 2004. In addition, contracts with Ruhrgas requiring natural gas deliveries of 13 bcm a year have been extended until 2020.

Central and Eastern Europe

Gazprom enjoys a dominant position in the Central and Eastern European gas markets due to existing historical, economic and political reasons as well as the proximity of the Central and Eastern European Markets to Russia.

In 2001, Gazprom exported 40.4 bcm of natural gas to Central and Eastern Europe (38.6 bcm in 2000), which amounted to 9.1% of the total natural gas supplied by Gazprom in 2001. The following table sets out natural gas export volumes to Central and Eastern Europe for the years 1999 to 2001:

Country	1999	2000	2001
	(bcm)	*(bcm)*	*(bcm)*
Slovakia	7.5	7.9	7.5
Czech Republic	7.8	7.5	7.5
Poland	6.1	6.8	7.5
Hungary	7.4	6.5	8.0
Romania	3.2	3.2	2.9
Bulgaria	3.2	3.2	3.3
Yugoslavia	1.1	1.2	1.7
Croatia	1.2	1.2	1.2
Slovenia	0.6	0.7	0.6
Bosnia	0.2	0.3	0.2
Macedonia	0.04	0.1	0.1
Total(1)	38.4	38.6	40.4

Source: Gazprom.

(1) Totals may not add up due to rounding.

Until recently, Gazprom contracted with its Central and Eastern European customers for the supply of natural gas on the basis of shorter-term contracts. In the last few years, Gazprom (acting through Gazexport) has adopted a policy of negotiating medium-term and long-term contracts with a gradual introduction of Western European contract standards as the market economies of Central and Eastern Europe further develop. The majority of the existing contracts contain similar features, including take-or-pay clauses and price setting mechanisms (which are mostly based on European liquid oil product prices) and do not allow for unilateral termination. Certain contracts (although not the majority), prohibit the re-export of natural gas. Gazprom supplies natural gas in Central and Eastern Europe through state-owned natural gas distribution companies and in certain countries through joint ventures in gas marketing and distribution companies. Gazprom considers the formation of new joint ventures for the transportation and marketing of Russian natural gas as a promising form of co-operation with Central and Eastern European countries. Gazprom is paid in fully convertible currency for the natural gas it sells in Central and Eastern Europe.

Prior to 1999, Gazprom had supplied a significant volume of its natural gas to Central and Eastern Europe under the Yamburg Inter-Governmental Agreements, agreements which originally provided for the settlement of construction costs by the delivery of natural gas to certain countries in Central and Eastern Europe and the German Democratic Republic (now part of the Federal Republic of Germany). These Agreements expired in 1999. On 10 October 2001 an agreement was entered into between the Government and the Czech Republic whereby it was agreed that, in consideration of a single payment to the Czech Republic of approximately U.S.$3,500,000 (to be made prior to 10 November 2001), the Government be released from all outstanding obligations to deliver or to procure the delivery by Gazprom of gas to the Czech Republic at preferential rates pursuant to the Yamburg Inter-Governmental Agreements. This payment has not yet been made as the Czech Republic has yet to fulfill certain conditions precedent to the agreement.

The FSU

Historically, Gazprom has had, and continues to have, a dominant position in the supply of natural gas to the FSU. In 2001, Gazprom exported 39.6 bcm of natural gas (43.4 bcm in 2000) which constituted approximately 8.9% of the total natural gas supplied by Gazprom in 2001) to six countries of the FSU: the Ukraine, Belarus, Moldova, Lithuania, Latvia and Estonia. Of the 39.6 bcm of natural gas exported, approximately 55% constituted deliveries to the Ukraine.

The following table sets out natural gas export volumes to the FSU countries (excluding Russia) for the years 1999 to 2001:

Country	1999 (bcm)	2000 (bcm)	2001 (bcm)
Ukraine	29.5	27.2	21.9
Belarus	12.2	10.8	11.6
Moldova	2.2	1.8	2.1
Lithuania	1.8	2.0	2.2
Latvia	1.0	1.0	1.1
Estonia	0.5	0.6	0.7
Total	47.2	43.4	39.6

Source: Gazprom.

Current annual contract prices for natural gas supplied by Gazprom to the FSU countries are higher than current Russian domestic prices and are settled on the level close to the world prices taking into account prices for alternative kinds of fuel and intergovernmental agreements in existence with these countries.

Gazprom has limited its export supplies to the FSU countries (which have experienced economic decline over recent years) in order to avoid further exposure to non-paying customers. However, Gazprom expects these markets to recover and plans to supply 49.5 bcm of natural gas to the FSU by 2005 and 45.8 bcm by 2010. In 2000 Gazprom signed long-term contracts with consumers in Lithuania, Latvia and Estonia (the "Baltic States") to supply 25.5 bcm of natural gas between 2000 and 2005.

The Ukraine, Gazprom's largest FSU customer, is traversed by major pipeline routes from the natural gas fields of Western Siberia to export markets in Europe and is the source of substantial amounts of industrial supplies for Gazprom. Gas exports from Russia to the Ukraine are based on annual inter-governmental agreements with respect to prices and export volumes. Currently, Gazprom is dependent on the Ukraine for the transit of substantially all its natural gas sold in Western Europe. However, the Yamal-Europe and Blue Stream pipelines, which are nearing completion, will reduce Gazprom's dependence on the Ukraine for the transportation of natural gas to Western Europe. On the other hand, the Ukraine is dependent on Gazprom 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 Gazprom and transit fees charged by the Ukraine.

Although the prices charged by Gazprom in the FSU are lower than those charged in Western Europe, the failure of a number of FSU customers to pay Gazprom for supplies of natural gas has resulted in substantial debts to Gazprom. As at 31 December 2001, natural gas with a sales value of more than U.S.$2.0 billion (including VAT levied in Russia but excluding charges for late payment) had been supplied to customers in the FSU for which payment had not been received. All of the amounts owed were due from customers in the Ukraine (U.S.$1.4 billion), Belarus (U.S.$157 million) and Moldova (U.S.$512 million), Gazprom's largest natural gas markets in the FSU. Lithuania, Latvia and Estonia were the most reliable paying customers among the natural gas-consuming FSU countries. Since June 2000, in line with Gazprom's policy to limit supplies to non-paying customers, deliveries of natural gas to the Ukraine are in payment for Gazprom's use of transit services through the Ukraine only. Accordingly no further debts for the non-payment of gas delivered to the Ukraine have accrued.

Gazprom's management is 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 Gazprom by issuing U.S.$90 million worth of sovereign notes with a Repayment Schedule over seven years. In 2001 Gazprom's contribution of U.S.$60 million into the charter capital of the Moldova Gas was set off against indebtedness in relation to gas supplied in 1997. An amount of U.S.$276 million owed by the Ukraine was set off against delivery of military hardware to the Ministry of Defence of the Russian Federation. In consideration of this delivery of military hardware Gazprom received tax credits to an equivalent value of the amount owed by the Ukraine. Towards the end of 2001, the Government, the Cabinet of Ministers of the Ukraine and the Government of Moldova signed agreements which provided for the restructuring of the Ukraine's and Moldova's debt for the previously supplied natural gas in the amounts of U.S.$1.4 billion and U.S.$0.9 billion respectively, although the restructuring arrangements with respect to the Ukraine are yet to be finalised.

Russia

According to Goskomstat (the State Committee for Statistics), the share of natural gas production as a percentage of the total volume of primary energy production in Russia increased from 20.5% in 1980 to 39.7% in 1990 and to 49.2% in 1999, while the share of oil production decreased from 38.9% in 1990 to 30.4% in 1999 and coal production from 14.5% in 1990 to 12.2% in 1999. The strict regulatory controls imposed on the rise of natural gas prices compared to other fuels has led to the shift towards the increased use of natural gas. As a result of this pricing policy adopted by the Government, natural gas prices at the end of the year 2001 were 1.4 times lower than power-generating coal and three times lower than fuel oil as referenced against 1 tonne of equivalent fuel. In contrast to many other major industrial economies where gas is primarily used for household consumption, in Russia natural gas is sold principally for use in electricity generation and heavy industry. Gazprom believes that electricity generation accounted for 38.6% of total natural gas consumption in Russia in 2001, while industrial users accounted for 32.4%, households consumed 14.5%, and budget and municipal organisations accounted for 14.5%.

Currently, wholesale natural gas prices and transportation tariffs are regulated by the State authorities. Wholesale prices for natural gas supplied to household consumers are lower than the prices for natural gas supplied to industrial consumers. Pursuant to the Resolution of the Government of the Russian Federation No. 1021 dated 29 December 2000, the Government intends to abandon the State regulation of prices for natural gas delivered to end-consumers. Instead, the Government intends to continue regulating tariffs for natural gas transportation services provided by Gazprom (See Appendix B – Part I "Overview of the Russian Gas Industry and its Regulation").

In 2001, Gazprom delivered 278.9 bcm of natural gas (compared to 255.0 bcm in 2000) to Russian consumers. This amounts to 62.6% of the total natural gas supplied by Gazprom in 2001.

Gazprom's natural gas sales to domestic users are confined to natural gas supplies to wholesalers rather than end users. In 2001, approximately 85% of the total volume of natural gas sold by Gazprom within Russia was distributed through third party regional natural gas distribution companies and 15% of natural gas was sold by Gazprom directly to large industrial consumers.

Mezhregiongaz (a wholly-owned subsidiary of Gazprom) accounts for substantially all of Gazprom's domestic sales of natural gas. In most regions of Russia, Mezhregiongaz sells natural gas through regional gas companies which enter into direct sales contracts with end consumers in the power generation, industrial and utilities sectors. Gas for household use is delivered by the regional gas companies through gas distribution companies. In addition to selling gas to households, gas distribution companies deliver gas to all companies through low and middle pressure pipelines.

Simultaneously with the formation of regional gas companies, Mezhregiongaz altered its contracting policies. In addition to long-term contracts with terms of up to 10 years (subject to annual delivery volume adjustments), Mezhregiongaz now widely uses one year gas supply contracts. The main terms and conditions of such contracts are as follows:

- full payment for any natural gas received by the consumer. Such payment, less any advance deposits, must be made on or before the 10th day of the month immediately following the month of the relevant natural gas deliveries to that consumer;

- in the event of the consumer's failure to pay for natural gas supplies on the due date, a penalty will be charged. Should a consumer continue to fail to pay, its natural gas supplies will be restricted and finally, the consumer may be disconnected; and

- natural gas off-take by consumers in excess of the agreed daily quotas without the prior consent of the supplier entails a surcharge payable on such excess consumption (winter surcharge of 50% and summer surcharge of 10%).

Delayed Payments for Gas Deliveries in Russia

During 2001, positive results have been achieved with respect to the collection of payments for natural gas delivered to Russian consumers. This has been due to the resurgence of the Russian economy and Gazprom's co-operation with consumers and administrations of the various republics, federal cities, autonomous regions and other Russian Subjects. As at 1 January 2002, arrears of payments for natural gas supplied to Russian customers (including Russian VAT but excluding late payment charges) amounted to approximately RUR 44.9 billion (equivalent to approximately U.S.$1.67 billion), compared to RUR 80.1 billion (equivalent to approximately U.S.$2.98 billion) as at 1 January 2001. Cash accounted for 83.3% of sales proceeds collected in 2001 compared to 61.7% in 2000.

There are a number of consumers, pursuant to various Government regulations, who can not be disconnected. These consumers include organisations such as hospitals, household utilities (such as water and electricity suppliers), military and state telecommunication organisations as well as other consumers whose operations are vital for the Russian population's life support and environmental safety.

Competition

Gazprom is currently a major supplier of natural gas in Europe. European gas markets are, however, undergoing significant restructuring as a result, in particular, of the EU Gas Directive which came into force in 1998. The purpose of the Directive is to deregulate and liberalise the EU gas market.

This has resulted in increased competition among the major suppliers of natural gas to the region, namely Russia, Norway, Algeria and The Netherlands. Gazprom's substantial reserves and, the proximity of major Russian natural gas fields to Europe are expected to support Gazprom's competitive position in the Western European market.

The table below shows the proportion of European natural gas supply attributable to each major supplier of natural gas to the European market in 2000.

Country	% OF EUROPEAN NATURAL GAS SUPPLY
Russia (Gazprom)	25.9
United Kingdom	21.7
The Netherlands	13.6
Algeria	12.1
Norway	10.2
Denmark	1.6
Italy	3.1
Germany	4.3
Other Europe	7.5

Source: CEDIGAZ—"Natural Gas in the World — 2001", Survey July 2001.

Whilst production in the countries of Western Europe falls as natural gas reserves in the region are depleted, a rise in exports from Algeria and Norway is becoming more pronounced as these two natural gas producing countries strive to increase their market share.

In Russia and the FSU countries, Gazprom faces competition from other oil and natural gas suppliers, in particular from independent suppliers in Russia and natural gas producing companies in Turkmenistan, Kazakhstan and Uzbekistan. Since April 1998, the independent Russian suppliers have been granted non-discriminatory access to the existing UGSS capacity in Russia. The independent suppliers (24 in total, including major users such as Itera, Pur-Land, Tomskneft, Arctic Gas, TransNafta and others) have historically been, and continue to be, competitors to Gazprom, mainly because of, in Gazprom's view, the Government's protectionist policy in providing preferential terms of gas sales for such independent suppliers (for example, zero excise tax on the sale of gas in Russia, which was in force until 1 July 2000 and a low transportation tariff set by the Federal Energy Commission for transportation of natural gas through the UGSS). Additionally, such independent suppliers can generally be more flexible than Gazprom 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 Gazprom.

In 2001, the independent suppliers accounted for 11.6% of natural gas transported through the UGSS. However, the competitive position of alternative suppliers is limited by the relatively small size of their reserve base, a relatively high cost of production and their dependence on access to Gazprom's transportation network.

Itera is the largest independent user of the UGSS. In addition to its own production, Itera purchased natural gas from the Yamal-Nenets Region, which received natural gas from Gazprom in lieu of mineral resource base restoration tax payments to the Region's budget. Since 1 January 2001 Gazprom has discontinued the practice of supplying natural gas in lieu of tax payments to the Yamal-Nenets Region.

Itera has significantly increased its reserve base by acquiring licences for exploration and production of natural gas reserves in Russia, as well as by acquiring other companies holding such licences, including those where Gazprom has or has had minority stakes.

In 1998, Itera acquired Gazprom's 51% stake in Rospan, a Russian natural gas producing company with over 240 bcm of licensed reserves which, due to a difficult basin structure, required a high level of capital investment for such reserves to be developed.

On 1 April 2002, the Group completed the repurchase of 32% of the shares in Purgas from Itera pursuant to the repurchase option provided by a share purchase agreement dated 10 February 1999. Purgas has a licence for the development of the substantial Gubkinskoye gas field in Western Siberia. In connection with the return of these Purgas shares Gazprom has paid Itera approximately RUR 5.8 billion.

Initially, Itera focused on customers in the Ukraine, Moldova and Belarus with a poor record of payments for natural gas supplies. Itera enjoys a higher degree of flexibility in dealing with these customers as compared to Gazprom which is reliant on these countries for transit of natural gas to Europe and whose contractual terms for the supply of natural gas are dependent on inter-governmental agreements with those countries.

Gazprom has confirmed that all transactions with Itera have been conducted on an arm's length basis and on normal commercial terms and that no member of Gazprom's Management Committee or Board of Directors or any member of their respective families or person over whom or whose assets or resources any such member of the Management Committee has direct or indirect control or significant influence or over whom any such member, together with any other party or parties has common control or significant influence, own, directly or indirectly, any equity interest in Itera.

On 23 January 2001, the Board of Directors of Gazprom appointed PricewaterhouseCoopers to review the financial, property, commercial and production relations between Gazprom and the Itera group for the years 1997 to 2000. In May 2001, the Board of Directors also adopted a code of practice entitled "Procedure for approving transactions involving stocks, shares or participation shares owned by Gazprom, its subsidiaries or affiliated companies" (the "Procedure"). PricewaterhouseCoopers has completed its review and presented the resulting report (the "Report") to a meeting of the Board of Directors on 31 July 2001.

The Board of Directors has taken the decision that the Report will remain confidential and that it will not publish or disclose the contents of the Report. The Board of Directors has considered the Report and have found that certain of its recommendations have already been addressed by the adoption of the Procedure. The Board of Directors has directed the Management Committee to draw up plans for the implementation of those recommendations made in the Report that are not addressed by the Procedure.

Reserves

As at 31 December 2001, Gazprom's wholly-owned subsidiaries held production licenses for approximately 26.0 tcm of A, B and C_1 natural gas reserves and subsidiaries, in which Gazprom holds less than 100% of the shares, held production licenses for another 5.0 tcm of A, B and C_1 natural gas reserves, of which 2.1 tcm is attributable to Gazprom in proportion to its actual shareholding. Gazprom's total A, B and C_1 estimated natural gas reserves of 28.1 tcm are equivalent to approximately 60% of the total estimated A, B and C_1 natural gas reserves in Russia.

Gazprom estimates its hydrocarbon reserves in accordance with Russian classifications and methodologies. Russian reserves classification standards differ significantly from standards accepted by international practices, in particular, with respect to the manner in which and the extent to which commercial factors are taken into account. Once they are reviewed and approved by the Central Reserve Commission, reserve estimates may be subject to minor changes. The results are to be published in the State Balance of Natural Resources.

In 1997-1999, DeGoyler & MacNaughton, a U.S. independent engineering consultancy evaluated, on the basis of international classifications and methodologies, approximately 72% of Gazprom and its subsidiaries' proved and probable natural gas reserves as defined by the Society of Petroleum Engineers (representing 18 of Gazprom's oil and gas fields). DeGoyler & MacNaughton (see Appendix B — Part II) confirmed:

- high accuracy of estimates for initial geological hydrocarbon reserves (approximately 98%);
- high percentage of reserves migrating to proved category (within a 90% accuracy); and
- economic effectiveness of gas condensate production in the audited fields.

As at 31 December 1999, proved and probable natural gas reserves in Gazprom's evaluated fields amounted to 18.9 tcm according to DeGoyler & MacNaughton. With a 10% discount rate factored in, these reserves had an estimated net present value of U.S.$40.4 billion as at 31 December 1999.

Gazprom is in the process of obtaining a revised and updated independent evaluation of its natural gas reserves on the basis of international classifications and methodologies.

Substantially all hydrocarbon exploration and production licences held by Gazprom's subsidiaries were granted in 1993-1995 in accordance with the Law on Subsoil adopted in 1992 and Regulations on the Licensing and Use of Subsoil issued in 1992.

Extension of licences upon expiration is subject to approval by the federal and regional authorities which are signatories to the licences. The licences impose certain obligations on Gazprom to provide employment, develop local infrastructure, pay certain local and federal taxes and meet certain requirements relating to environmental matters. Licences may be suspended or revoked if the licencees fail to comply with their terms (See "Appendix B — Part I — Overview of the Russian Gas Industry and its Regulation"). Gazprom believes that it is substantially in compliance with the terms of all of its material subsoil licences (although technical breaches may have occurred).

As at 31 December 2001, the Group held:

- 80 production licences with initial terms of 20 to 25 years, with remaining terms of mostly between 13 and 20 years;
- 15 combined exploration and production licences with initial terms of 25 years, with remaining terms of mostly between 18 and 25 years; and
- 27 exploration and appraisal licences with initial terms up to 5 years (without development rights) and with remaining terms of up to 5 years.

Gazprom's reserves are highly concentrated. Out of total A, B and C_1 natural gas reserves of 28.1 tcm, 22.9 tcm (or 81.5%) are located in Western Siberia. Most of these reserves are concentrated in very large fields, such as Urengoiskoye, Bovanenkovskoye, Yamburgskoye and Zapolyarnoye. More than half of Gazprom's reserves are in the Senomanian deposit which is characterised by low bedding depth, high delivery rates of wells and dry natural gas.

As at 31 December 2001, Gazprom, through its wholly owned subsidiaries or through subsidiaries, in which Gazprom holds less than 100% of the Shares, held production licences for approximately 1,293.8 million tonnes of A, B and C_1 gas condensate reserves (attributable to Gazprom in proportion to its actual shareholding), of which 779.7 million tonnes (or 60.3%) are located in Western Siberia, and 584.6 million tonnes of oil, of which 473.7 million tonnes (or 81.0%) are located in Western Siberia. The remaining reserves are located in other regions of Russia.

The following table sets out, as at 31 December 2001, a summary of all Gazprom's hydrocarbon reserves for which production licences had been awarded:

Region	Gas ($A+B+C_1$)	Gas Condensate ($A+B+C_1$)	Oil ($A+B+C_1$)
	(tcm)	*(million tonnes)*	*(million tonnes)*
Reserves controlled through the wholly-owned subsidiaries			
Nadym-Pur-Taz	16.5	654.5	226.7
Yamal	5.8	100.2	227.0
Hanti-Mansiysky AO	0.02		4.8
Total for Western Siberia	22.3	754.7	458.5
Volga Region	0.9	58.2	20.9
North of the European Part of Russia	0.1	22.4	2.6
Astrahanskaya obl. and Northern Caucasus	2.7	405.1	0.7
Total	26.0	1,240.4	482.7
Reserves controlled through joint ventures (in proportion to Gazprom's actual shareholding)			
Western Siberia	0.6	25.0	15.2
Eastern Siberia (Tomsk)	0.1	9.4	7.5
North of the European Part of Russia (Barentsevo and Pecherskoe seas)	1.4	16.8	29.5
Volga Region	0.03	2.2	49.7
Total	2.1	53.4	101.9
Total reserves controlled by Gazprom	28.1	1293.8	584.6

Source: Gazprom.

The following table sets out, as at 31 December 2001 A, B and C_1 natural gas reserves for which Gazprom held production licences by major producing fields:

Fields	Reserves ($A+B+C_1$) *(tcm)*
Western Siberia:	
Urengoiskoye[1]	5.9
Yamburgskoye	4.2
Zapolyarnoe	3.5
Medvezhe	0.6
Komsomolskoye	0.5
South Region:	
Astrakhanskoye	2.6
Volga Region:	
Orenburgskoye	0.8

Source: Gazprom.

(1) Includes the North Urengoi, Pestsov, West Pestsov and Yen-Yahinsk fields (Senomanian formation).

The following table sets out, as at 31 December 2001, A, B and C_1 natural gas reserves at Gazprom's major natural gas fields currently under development:

Fields	Reserves ($A+B+C_1$) *(tcm)*
Yamal Peninsula:	
Bovanenkovskoye	4.4
Kharasaveiskoye	1.3
Barents Sea:	
Shtokmanovskoye (Gazprom's share)	1.4

Source: Gazprom.

In 2000-2001, Gazprom discovered two large offshore natural gas fields (Kamennomysskoye and Severokamennomysskoye) in the delta of the river Ob. Tentative estimates of A, B, C_1 and C_2 natural gas reserves in those fields exceed 450 bcm, which would add approximately 1-2% to Gazprom's existing reserve base (calculated on the basis of Russian classifications and methodologies).

Gazprom's current strategy is to focus on the exploration of new fields and natural gas-bearing horizons in proximity to already developed fields so as to achieve a balance between production and reserves growth.

The following table sets out the number of wells drilled by Gazprom in the period from 1999 to 2001, the number of productive wells and an estimate of the total A, B and C_1 natural gas reserves in such wells:

	1999	2000	2001
Number of exploration wells drilled	18	14	12
of which: productive	12	10	5
Addition to natural gas reserves resulting from geological exploration (bcm)	185.8	76.1	166.2

Source: Gazprom.

Production

Overview

In 2001, Gazprom produced 512.0 bcm of natural gas, 9.5 million tonnes of gas condensate and 704.4 thousand tonnes of oil compared to 523.2 bcm of natural gas, 9.3 million tonnes of gas condensate and 719.0 thousand tonnes of oil produced in 2000 respectively.

Gazprom produces natural gas, gas condensate and oil from 72 fields located in various regions of the Russian Federation. The main production regions are as follows:

- *West-Siberian region.* Gazprom's main natural gas production region which is characterised by severe weather conditions. There are 12 active natural gas, gas condensate and oil and gas condensate fields which account for 92.5% of natural gas, 52.4% of gas condensate and 72.2% of oil produced by Gazprom. Several production subsidiaries, including Nadymgazprom, Urengoygazprom, Yamburggazdobycha and Noyabrskgazdobycha operate in this region.
- *Urals region.* There is one active oil and gas condensate field, Orenburgskoye, which accounts for 4.5% of natural gas, 3.8% of gas condensate and 27.3% of oil produced by Gazprom. The operating company for this field is Orenburggazprom, which produces, processes and transports natural gas.
- *North-European region.* This region is characterised by severe weather conditions and has 4 active gas condensate fields accounting for 0.6% of natural gas and 4.0% of gas condensate produced by Gazprom. The operating production company for this region is Severgazprom.
- *Volga region.* There is one active gas condensate field in the region, Astrakhanskoye, which accounts for 2.1% of natural gas and 38.7% of gas condensate produced by Gazprom. The operating company for this field is Astrakhangazprom.
- *Northern Caucasus Region.* There are 54 fields which account for 0.4% of natural gas, 1.1% of gas condensate and 0.5% of oil produced by Gazprom. Production of hydrocarbons is carried out by Kubangazprom and Kavkaztransgaz.

Gas

In 2001, Gazprom produced 512.0 bcm of natural gas (compared to 523.2 bcm in 2000) which accounted for approximately 88.1% of the total amount of natural gas produced in Russia. The remainder of natural gas production in Russia is by independent natural gas producers as well as by certain oil companies.

As at 31 December 2001, Gazprom had a total of 9,302 natural gas wells and 569 oil wells in its fields.

The table below illustrates natural gas production for Gazprom's major natural gas fields for the period from 1999 to 2001:

	1999	2000	2001
	(bcm)	*(bcm)*	*(bcm)*
Urengoiskoye	209.1	193.3	180.4
Yamburgskoye	175.9	168.0	165.4
Medvezhiye	38.9	35.8	33.3
Komsomolskoye	30.4	30.5	31.0
Yamsoveiskoye	21.2	21.9	20.6
Yubileinoye	12.2	15.9	17.4
Western-Tarkosalinskoye(1)	13.4	13.7	13.6
Others	5.9	4.9	11.3
Total Western Siberia	507.0	484.0	473.5
Orenburg	24.8	24.1	22.8
Other	13.8	15.1	15.7
Total Gazprom	545.6	523.2	512.0

Source: Gazprom.

(1) The licence to develop the Western-Tarkosalinskoye field is held by Purneftegazgeologia, an entity unrelated to Gazprom. Gazprom is contracted to develop the field and builds its infrastructure, receiving 90% of natural gas production in return. The figures in the table reflect the 90% of the natural gas production that Gazprom is to receive pursuant to the terms of the contract with Purneftegazgeologia.

Gazprom is also developing new fields, particularly in the Nadym-Pur-Taz region, with a view to utilising the increased transmission capacity which will become available following the completion of the construction of the Yamal-Europe pipelines.

Between 1996 and 2001, Gazprom commenced the development of the West-Tarkosalinskoye field, the Yamsoveiskoye field, the Kharvutinskoye area of the Yamburgskoye gas condensate field and the Western and Northern areas of the Komsomolskoye field. In addition, two gas processing units have been put on stream at the Astrakhanskoye natural gas condensate field; both units have been commissioned at the Neocom deposit of the Yamburgskoye gas condensate field and a combined gas processing plant has been put into operation at the Yubileynoye field. In 2001, total production of gas from these fields amounted to 100.4 bcm. In addition, 22 booster compressor stations with total installed capacity of 1,343 megawatts commenced operation between 1996 and 2001, and 1,038 operating wells were brought on stream.

Infrastructure is being developed at the Zapolyarnoye field. This field commenced commercial production in the third quarter of 2001, after a gas treatment plant ("GTP") had been placed in operation which allowed 7.1 bcm of gas to be delivered during the remainder of 2001. During 2002 it is anticipated that this GTP will reach its full operating capacity of 35 bcm per annum.

By the end of 2002 it is further anticipated that a second GTP will come into operation, taking the Zapolyarnoye field's total gas production to 40.8 bcm per annum.

Once the planned third of GTP is commissioned in 2004, gas production is expected to rise to 70 bcm per annum. It is anticipated that the Zapolyarnoye field will reach full capacity equal to 100 bcm by 2005. Gazprom believes that this peak rate of gas production can be sustained for a 12 year period. Gazprom believes that by bringing the Zapolyarnoye field on stream will compensate for the declining production in mature fields such as Urengoyskoye and the overall decrease in natural gas production in Western Siberia.

Gazprom intends to maintain an average annual production level of 530 bcm between the years 2003 and 2010. In order to maintain such average annual production levels. Gazprom has determined that the gas and gas condensate fields of both the Yamal Peninsula and the Karskoye Sea shelf need to have commenced production in addition to the anticipated production levels at developed fields with existing infrastructure in the years 2007 to 2010.

Gas Condensate

Gazprom's gas condensate production in 2001 amounted to 9.5 million tonnes (compared to 9.3 million tonnes in 2000). 91.1% of such gas condensate was produced from the Urengoiskoye, Astrakhanskoye and Yamburgskoye fields. Gazprom intends to increase condensate production, particularly in the Yamburgskoye and Astrakhanskoye fields and bring on stream the En-Yahinskoye field during 2003.

The table below illustrates gas condensate production from Gazprom's major fields for the period 1999 to 2001:

	1999	2000	2001
	(thousand tons)	*(thousand tons)*	*(thousand tons)*
Urengoiskoye	3,772.7	3,516.5	3,635.6
Yamburgskoye	1,554.5	1,519.3	1,335.7
Astrahanskoye	3,046.9	3,413.4	3,670.5
Others	799.5	846.0	840.2
Total	9,173.6	9,295.2	9,482.0

Source: Gazprom.

The production of gas condensate has increased over recent years as new gas condensate fields have been brought on stream.

Oil

In 2001, Gazprom produced approximately 704.4 thousand tonnes of oil (compared to 719.0 thousand tonnes in 2000) from the perimeters of its two main gas condensate fields, namely Urengoyskoye and Orenburgskoye.

The table below illustrates oil production in Gazprom's major fields for the period 1999 to 2001:

	1999	2000	2001
	(thousand tons)	*(thousand tons)*	*(thousand tons)*
Urengoyskoye	543.1	512.0	508.3
Orenburgskoye	173.4	205.5	192.6
Others	—	1.5	3.5
Total	716.5	719.0	704.4

Source: Gazprom.

Gas and Gas Condensate Processing

Gazprom operates six natural gas and gas condensate refineries which remove hazardous and corrosive substances from natural gas and gas condensate, thoroughly dry the natural gas and prepare it for transportation. The stabilisation of gas condensate results in liquefied gases and a broad range of oil products.

Natural gas and gas condensate refineries are sophisticated, state of the art plants that combine chemical facilities with petroleum refining facilities. Some plants have implemented unique technologies for treating natural gas with a high sulphur content (the Astrakhan plant treats natural gas with hydrogen sulphide and carbon dioxide content reaching 40%), and produce odorants, technical carbon and gaseous and liquid helium. All such plants are directly linked to respective gas condensate fields and constitute single technologically-related complexes.

Astrakhan Gas Refinery. This is an all-round refinery for the processing of natural gas with a high sulphur content and gas condensate extracted from the Astrakhan gas condensate field. The plant comprises two lines, each having an annual capacity of 6 bcm of refined natural gas. The refinery's products include:

- dry market-grade natural gas which is fed into trunk pipelines;
- natural gas-derived sulphur;
- motor gasoline;
- diesel;
- residual fuel oil;
- industrial-grade propane/butane mixture; and
- industrial-grade butane.

Orenburg Gas Refinery. One of the world's largest refineries, it processes natural gas with a high sulphur content and gas condensed hydrocarbons. The refinery's products include:

- dry market-grade natural gas;
- stabilised gas condensate;
- liquefied natural gas;
- multi-component hydrocarbon distillate (MHD);
- natural gas-derived sulphur; and
- odorants.

Orenburg Helium Plant. This is Russia's largest producer of helium. The plant's products include:

- gaseous and liquefied helium;
- ethane;
- multi-component hydrocarbon distillate (MHD); and
- liquefied natural gas.

Sosnogorksy Gas Refinery. The refinery's products include:

- dry market-grade natural gas;
- liquefied natural gas;
- stablised gas condensate;
- motor gasoline; and
- technical carbon.

The West Siberian refining complex comprises two facilities: the Urengoy Condensate Preparation Plant and the Surgut Condensate Stabilisation Plant.

Urengoy Condensate Preparation Plant. The plant's products include:

- de-ethanised natural gas (used as feedstock for further refining at the Novo-Urengoy Gas Chemistry Complex—see "International Projects and Alliances");
- stabilised gas condensate;
- motor gasoline; and
- diesel.

Surgut Condensate Stabilisation Plant. One of the world's largest refining complexes, it processes oil and gas condensate mixture produced from the West Siberian fields. The refinery's products include:

- stabilised condensate;
- motor gasoline;
- diesel;
- liquefied gases; and
- isopentane.

The table below shows the volumes of key products which were produced and refined by the Group in the period from 1999 to 2001:

	Measuring Unit	1999	2000	2001
Processing of the raw material:				
Gas processing	bcm	34.8	35.3	34.6
Primary processing of oil and gas condensate	thousand tonnes	4,950	4,881	4,966
Processing product:				
Dry natural gas	bcm	28.0	27.9	27.1
Liquefied natural gas	thousand tonnes	1,364	1,834	2,111
Ethane	thousand tonnes	310	302	286
Stable condensate	thousand tonnes	5,912	6,049	6,048
Gazoline	thousand tonnes	1,103	1,124	1,216
Diesel fuel	thousand tonnes	1,521	1,513	1,617
Furnace fuel oil	thousand tonnes	358	380	384
Sulphur	thousand tonnes	4,068	4,484	4,695
Helium	thousand cubic metres	4,628	5,274	5,336
Odorant	thousand tonnes	3,177	3,316	3,411
Technical carbon	thousand tonnes	24	26	29
De-ethanised natural gas	mcm	797	733	736.5

Source: Gazprom.

Transportation

Gazprom owns and operates the UGSS, a single centrally controlled system for natural gas production, processing, transportation, storage and deliveries. The UGSS includes the world's largest high pressure trunk pipeline system with approximately 150,000 km of pipelines. Gas transportation is powered by 253 compressor stations with a total capacity of approximately 42,600 MW. Seasonal peak loads are levelled off using 22 underground natural gas storage facilities with an active storage capacity of approximately 57.9 bcm.

Gas for domestic consumption and export is transported for an average distance of approximately 2,500 km in Russia. Gazprom's dispatch management centre, located in Moscow, controls and manages the transportation of gas in Russia.

The total volume of natural gas consumed by the pipeline system was approximately 45.7 bcm in 2001, 86% of which was used for internal consumption and the rest absorbed by technical losses (including natural gas leakage).

The following table sets forth some key figures in respect of the UGSS natural gas balance for 1999 to 2001 (excluding Central Asia transit gas):

	1999 *(bcm)*	2000 *(bcm)*	2001 *(bcm)*
Total natural gas transported (including natural gas produced by independent suppliers)	607.7	608.8	590.3
Underground storage:			
Withdrawals	(52.5)	(53.3)	(48.3)
Additions	52.6	60.3	46.8
Changes in natural gas volume within UGSS pipelines	(0.3)	0.3	0.4
Exports:			
Western Europe	88.4	90.4	86.6
Central and Eastern Europe	38.4	38.6	40.4
FSU	77.7	63.6	52.9
Technological needs and transportation system losses(1)	50.8	47.1	45.7
Deliveries within Russia/Russian Economy	299.8	308.4	317.5

Source: Gazprom.

(1) Includes own consumption required to run the natural gas pump turbines, plus technological losses, including gas leakages.

Gazprom's pipeline system transports natural gas principally from the large Western Siberian fields westward towards the heavily populated regions of Russia, the main export markets of Western and Central and Eastern Europe, Turkey and certain FSU countries. Other parts of the pipeline system originate in the Volga-Urals region natural gas fields, including the Orenburgskoye and Astrakhanskoye fields. Several large pipeline systems from Kazakhstan also enter Russia from natural gas fields in Turkmenistan, Uzbekistan and Kazakhstan.

All of the natural gas exported by Gazprom to Europe (except Finland) is transported through pipelines maintained by other countries, primarily the Ukraine. Gazprom pays transit fees for the use of these pipelines. The negotiations of these fees and access to these pipelines are important elements of Gazprom's export business. Transit fees are a significant element of the natural gas price to end users in Europe.

The maintenance of Gazprom's natural gas transportation business is organised on a regional basis through specialised gas transportation subsidiaries and a number of production subsidiaries which also operate pipelines. The gas transportation subsidiaries are responsible for the operation and maintenance of pipelines and for the transit of natural gas to regional and local distribution companies or directly to end-consumers. Gazprom's subsidiaries have laid, at their own expense, 1,000 km of gas transportation pipelines in 2001. Gazprom also owns various interests in regional and local distribution companies equating to around a 10% market share of the Russian gas distribution business.

The high level of integration of Gazprom's pipeline network, achieved by the use of multiple and parallel pipelines, inter-connectors and underground storage facilities, ensure that natural gas deliveries to distributors, export customers and consumers are reliable. Gazprom believes that within the past ten years there have been no significant supply interruptions to consumers, despite several pipeline failures, as a result of the use of available spare transportation capacity within the UGSS.

The construction of Gazprom's gas pipeline system was started 57 years ago with the first Saratov-Moscow pipeline, however the majority of Gazprom's gas pipeline system was constructed during the period from 1970 to 1990. The age of the pipeline system, as at 1 January 2001, is shown in the table below:

Years Since Construction	**Length (km)**	**%**
Up to 10 years	25,169	17
11-20 years	63,239	43
21-33 years	39,360	26
Over 33 years	21,132	14
Total	148,900	100

Source: Gazprom.

The continuous and long term operation of the pipeline system, combined with ageing and worn and obsolete equipment, dictate the maintenance requirements of the gas lines and compressor station facilities. Annual capital repairs and preventative maintenance programmes are carried out with a view to enhancing efficient gas flow distribution, reliable gas supply and technological and environmental safety of the transportation operations. Maintenance work is preceded by gas pipeline inspection achieved through various means. In 2001, 11,300 km of pipelines were inspected using in-the-pipe probes, while 40,000 km of trunk gas lines were checked using electric measurements. Following such diagnostic checks, 1,111 km of pipelines and 251 underwater crossings were overhauled. As a result of such pipeline repairs, the incidence of faults that involve interruptions or restrictions of gas supply dropped from 0.58 per 1000 km of pipelines in 1985 to 0.19 in 2001.

Under the auspices of the EBRD, 13 Western European companies, (in conjunction with Gazprom's specialists) conducted a two-year study of the UGSS between 1993 and 1995, in order to assess the system's condition and to formulate measures for improving its performance. The final report, which was based on an analysis of the operation of the UGSS in 1995, showed that, in most cases, the extensive branching structure of the UGSS, together with the availability of spare pipeline through put capacity, enabled natural gas flow to be either re-routed or increased in the case of an emergency.

Gazprom is continually working to improve the UGSS. It has developed a detailed programme to refurbish a number of its compressor stations and gas pipelines by year end 2005. The programme includes plans for the replacement of worn out and obsolete compressor gas pumping units with state-of-the-art hardware as well as the implementation of process controls and optimisation systems, both for individual pipelines and for the system as a whole. To date, this programme has resulted in 53 gas pumping units being refurbished and 35 replaced. The new units have a total power output of 508MW.

Gazprom believes that the programme will allow it to achieve a significant reduction in its in-house gas consumption as well as a reduction in atmospheric pollution. The programme has already delivered improvements with emissions in 2000 being 26,200 tons lower than in 1999. This figure includes a reduction of carbon oxide emissions by 4.7% and of nitrogen oxides emissions by 5.6%.

Gazprom outsources a significant amount of its pipeline construction work to third party contractors through a tender process. Construction contracts are awarded to the most competitive bidder by the Gazprom Tender Committee. Stroytransgaz has been a successful bidder for a large number of Gazprom's construction projects, due to the competitive terms that it has offered and its historical experience of previous successful co-operation with Gazprom.

Gazprom has confirmed that all transactions with Stroytransgaz have been conducted on an arm's length basis and on normal commercial terms.

Gazprom provides the 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;
- Adequate quality and technical parameters of natural gas suppliers;
- Availability of secondary routes for supply and off-take of natural gas equipped with adequate metering devices; and
- Availability of natural gas supplies and relevant customer demand for the proposed time period.

During the year 2001 a total of 24 independent gas suppliers, with a cumulative volume of gas transported equating to 11.6% of total volume of gas transported through the UGSS, had access to Gazprom's transportation system.

Underground Storage

Currently Gazprom operates 22 underground storage facilities in Russia. By the beginning of the 2001/2002 heating season market-grade natural gas reserves equal to 60 bcm of gas were stored in these storage facilities. The capacity of the underground storage facilities allowed Gazprom to supply 17% of the annual volume of gas consumption from these facilities of which 25% were supplied in winter. Currently 5 new underground gas storage facilities are under construction.

In 2001, pursuant to existing contracts, Gazprom arranged storage of a total of 1.6 bcm of Russian natural gas in Latvia and Germany and 3.6 bcm in Ukraine under previously agreed storage lease contracts.

Electricity

The operation of the industrial facilities owned by Gazprom is supported by Gazprom's own generation facilities. Currently Gazprom operates 73,500 km of electricity transmission lines and 9,400 electric power stations with a total capacity of 8.6 million kW.

Production of electricity in 2001 reached 1,506.3 GWh, which is an increase of 34.8% on the previous year.

Communication

Gazprom has developed an extensive internal communications network, which it maintains and operates in conjunction with the UGSS with a view to ensuring the technical reliability and safety of the UGSS.

The system consists of a ground based network and a satellite system. The ground based network includes 72,000 km of cable communication lines, 17,100 km of multi-channel radio lines and 628 automated telephone stations with total capacity of 245,000 numbers. The satellite system consists of the satellite "Yamal-100" and 105 land-earth stations which transmit to and receive signals from the satellite.

Strategy

Gazprom's main strategic objective is to increase profitability and to further strengthen its position in the domestic, FSU and European gas markets while continuing to satisfy the demand for natural gas and to improve payment discipline in Russia.

Increase efficiency of domestic operations: The efficiency of domestic operations is contingent on the improvement of payment discipline and the profitability of domestic sales.

Improve profitability of domestic sales: The domestic natural gas prices are controlled by the state. Gazprom continues to work with state bodies to eliminate the current disparity between export and domestic gas prices. The Government has decided to increase domestic natural gas prices by 20% as of 15 February 2002.

Further improve payment discipline: Gazprom has improved and intends to further improve payment discipline in the domestic market by imposing stricter payment requirements and targeting its largest debtors.

Achieve planned long-term production levels: Gazprom plans to maintain future production at an average annual level of 530 bcm for the next ten years. In 2001, the Zapolyarnoye natural gas field with an anticipated annual production level of 100 bcm was brought on stream.

Expanded export capacity: Gazprom is working on the construction and expansion of its export transportation network, including the Yamal-Europe, Blue Stream and Trans-Balkan pipeline projects, provide diversification of routes and greater security of gas deliveries to Gazprom's principal markets.

Maintenance of long-term natural gas supply contracts: Gazprom intends to maintain its portfolio of long-term natural gas supply contracts with European customers, capitalising on an increasing demand for gas in the region and its track record as a reliable supplier.

Vertical integration and diversification into petrochemicals production: This strategy is being pursued both domestically and internationally through acquisitions and joint ventures aimed at capturing wider distribution and value-added margins and securing its competitive position in the domestic, FSU and European gas markets. Gazprom holds 51% of voting shares in Sibur, a major Russian petrochemical company which owns assets in certain FSU countries as well as in Central and Eastern Europe.

New Markets: Gazprom plans to develop new markets with particular focus on Southern Europe, the United Kingdom and China.

International Projects and Alliances

The Yamal-Europe Pipeline Project

In order to increase the export of Russian natural gas to Europe, Gazprom is proceeding with the Yamal-Europe project. The Yamal-Europe project consists of constructing pipelines from the northern parts of the Tyumen region in Russia to Germany, running through the territories of Belarus and Poland. The projected annual capacity of the first stage of the pipeline is approximately 30 bcm. The new transportation route, is being constructed in reverse order, i.e. from the consuming regions to the production areas.

In October 1999 the most important section of the first pipeline (approximately 1,230 km) running from compressor station Nesvizhskaya in Belarus to connect with the German STEGAL pipeline and three compressor stations became operational.

The commissioned facilities account for more than 50% of the pipeline potential output. Gas supplies via Yamal-Europe started on 7 November 1999. The owner of the German section of this pipeline is Wingas, the joint venture between Gazprom and Wintershall and of the Polish section is Europol Gaz, a joint venture in which Gazprom, PGNiG (the 100% state-owned Polish gas company) and Polish joint stock company Gaztrading participate. Completion of the remaining pipeline section within Belarus is expected to take place in 2002-2003.

In addition, in Russia, construction of the gas lines of the pipeline from Torzhok to the Belarus border is expected to be completed in 2002-2003. Torzhok is a key pipeline junction north of Moscow where several of Gazprom's trunk pipelines converge.

In addition to increasing exports, the Yamal-Europe Project is expected to enhance supply reliability through the creation of a new export route. Connecting the Yamal-Europe pipeline to the existing natural gas transportation network in Germany will allow for the full integration of this pipeline into the European gas network.

A decision of Gazprom as to whether to construct a second Yamal-Europe trunk pipeline will depend on (i) demand for natural gas in western Europe and (ii) the economic efficiency of exporting gas in this manner.

Blue Stream Project

In alliance with key Italian gas purchaser and distributor ENI, Gazprom is constructing a new gas trunk pipeline from Russia via the Black Sea to Turkey. It is anticipated that annual volume of natural gas exports along this pipeline will amount to 16 bcm from 2008. Gazprom expects to commence natural gas exports to Turkey via the Blue Stream Project route in 2002. It is anticipated that, by 2008, the total volume of Russian natural gas exports to Turkey will be 30 bcm. Upon completion, this project will further open the promising Turkish market to Gazprom.

In November 1998, Gazprom and ENI entered into a memorandum of understanding to participate on an equal basis in Blue Stream Pipeline Company B.V., a special project company for the development and operation of a natural gas transportation system from Dzubga (including the Beregovaya compressor station located in the vicinity of Dzubga in Russia) to Samsun in Turkey (the "Offshore Section"). This system will be connected to Gazprom's existing pipeline network through a new pipeline running from Izobylnoye to Beregovaya (the "Onshore Section"). The Onshore Section and the Offshore Section together constitute the Blue Stream Project.

The pipeline from Russia to Turkey will be approximately 760 km long of which about 390 km will run 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.

A pipeline connection from Russia to Turkey running through the Black Sea is over 980 km shorter when compared to an onshore pipeline passing through the territories of the Ukraine, Moldova, Romania and Bulgaria.

The total estimated construction cost of the Offshore and Onshore Sections of the Blue Stream Project is 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 is approximately U.S.$1.7 billion.

To fund the project Gazprom and Blue Stream Pipeline Company B.V. has signed agreements with a consortium of Western European and Japanese banks to raise loans to finance the Blue Stream Project. The total amount of loans available to Gazprom and Blue Stream Pipeline Company B.V. for the Blue Stream project is U.S.$1.76 billion where Gazprom is the borrower of record in respect of U.S. $573 million (the first tranche of which, amounting to U.S.$117 million, was drawn down by Gazprom in May 2001) and Blue Stream Pipeline Company B.V. is the borrower in respect of U.S.$1.187 billion. At 30 September 2001 Blue Stream Pipeline Company B.V. drew down RUR 23,747 million (U.S.$808 million of the credit facility, of which RUR 11,697 million (U.S.$398 million) was guaranteed by Gazprom. The remainder of the financing for the Offshore Section of the Blue Stream Project is covered by the various contributions of the equity sponsors of the project, Gazprom and SNAM (ENI's subsidiary) and a U.S.$866 million loan provided under the guarantee of SNAM. Any additional financing required for the Onshore Section of the Blue Stream Project will be provided by Gazprom out of its own funds and through other debt financing. For example, in February 2001, Gazprom received a loan for these purposes of €250 million from a consortium of international banks led by Bayerische Hypo-und Vereins Bank. The loans received by Gazprom to implement this project are issued on a secured basis.

ENI

On 11 February 1998, Gazprom concluded a strategic alliance agreement with ENI. The agreement envisaged co-operation between the parties on the exploration and production of hydrocarbons. In accordance with the terms and conditions of the strategic alliance agreement, the parties are to establish a joint venture whose aim is to study and develop the paleozoic deposits of the Astrakhan field. The constitutive documents for the joint venture are in their final drafting stages.

Shell

On 17 November 1997, Gazprom signed a strategic alliance agreement with Shell, which contemplated the parties' joint co-operation on several projects, including a project associated with prospecting, assessment, development and production of oil and natural gas from the Neokomian deposits of the Zapolyarnoye field, which totals 516.5 bcm of A, B, C_1, and C_2 natural gas reserves (according to Russian classifications and methodologies), 88.8 million tonnes of gas condensate *reserves and 59.4 million tonnes of oil reserves. Gazprom has, in co-operation with Shell,* performed a preliminary review and a feasibility study of the project. The joint venture is expected to produce approximately 14.6 bcm of natural gas and 2 million tonnes of gas condensate per year by the third year of operation.

So far, the parties are in the process of negotiating the draft joint venture agreement, coordinating projects for Shell's participation in the extension of the gas transportation system, and negotiating the terms of financing and implementation of the production sharing agreement. In accordance with the strategic alliance agreement, Shell proposed to create an international consortium to oversee investment in the Ukraine's gas transit system, the main objective of which would be to organise proper management and control over that system. The parties are presently continuing consultations in respect of the above issues. Gazprom and Shell are continuing negotiations with Petro China in connection with a West-East trans-Chinese gas pipeline construction project. In December 2001 the parties signed an Intermediate Framework Agreement on the creation of a joint venture company by the Gazprom-Shell consortium and Petro China.

BASF

Gazprom is supplying an increasing proportion of natural gas to the Western and Central and Eastern European markets via transportation and marketing companies in which it has equity interests.

In Germany, Gazprom and BASF agreed to undertake joint marketing of natural gas and to build and operate gas pipelines and supply networks in 1990. This agreement led to the construction of the STEGAL gas pipeline which, with a total length of 313 km, connects the MIDAL gas pipeline with the Czech natural gas pipeline system.

Gazexport, through its German subsidiary, Zarubezhgaz Erdgashandel ("ZGG"), owns a 35% shareholding in Wingas. Wingas in turn owns the MIDAL-STEGAL pipeline system and a natural gas storage facility at Rehden with a current utilised capacity of 4.2 bcm. The total amount invested into the MIDAL-STEGAL pipeline system and the gas storage facility at Rehden amounts to approximately DM 4 billion, including Gazprom's contribution of DM 1.4 billion.

Gazexport and Wintershall each have a 50% shareholding in the gas trading company Wintershall Erdgas Handelshaus ("WIEH"). WIEH purchases its natural gas supplies exclusively from Gazprom under long-term contracts. Two long-term natural gas supply contracts have been concluded with WIEH for a total annual volume of 13.8 bcm. Sales by WIEH are to Wingas, Verbundnetzgas, a major natural gas distributor in eastern Germany (of which ZGG owns approximately 5%) and BASF. Wingas' gas sales are to municipal undertakings, gas utilities and major industrial consumers. Gazprom has concluded two long-term natural gas supply contracts with Wingas for a total annual volume of 5.8 bcm. In 2001, Gazprom supplied 13.5 bcm of natural gas to Wingas and WIEH for sale in Germany and some other Western European countries. Overall, Gazprom supplied 111.1 bcm of natural gas to WIEH and Wingas between 1991 and 2001. During the same period, Gazprom supplied 30.0 bcm of natural gas to WIEH for resale in Bulgaria and Romania.

At the end of 1998, the 294 km long WEDAL pipeline became operational, linking the Wingas pipeline network with the Belgian pipeline system and the Interconnector pipeline which links the UK gas transportation system to the continent. Gazprom has acquired a 10% interest in the Interconnector pipeline. Initially, the WEDAL pipeline was designed to transport UK gas under contracts between Wingas, British Gas and Conoco and provides Wingas with the security of supply from diverse transportation sources. Gas supplies from Continental Europe to the UK may also be carried through the Interconnector pipeline.

At the end of 1999, a 340 km pipeline, known as the YAGAL pipeline, with a capacity of 26.0 bcm per year was put into operation. This pipeline connects the Yamal-Europe pipeline with the STEGAL pipeline. The completion of this pipeline enabled Gazprom to expand its supplies of natural gas to European countries and improved the reliability and flexibility of supplies of Russian natural gas to Germany.

Under the strategic alliance agreement between Gazprom and BASF, a feasibility study for the joint development of the Achimovsk formations of the Urengoyskoye field was jointly prepared and coordinated by Gazprom and Wintershall. The terms and conditions of the joint venture are currently being negotiated.

Transbalkan Pipeline Project

Gazprom is evaluating the possibility of increasing and diversifying its gas transportation routes to the Balkan states and Turkey. In order to increase natural gas supplies to the Balkan states, Gazprom, in association with various national companies, is working on the expansion and modernisation of the existing pipeline network in the Ukraine, Romania and Bulgaria (the Transbalkan Pipeline Project).

Expansion of transit capacities within the Ukraine providing for the construction of a gas pipeline and a compressor station is being gradually implemented. A compressor station, Tarutino, was put into operation in 2001 within the operating transit gas pipeline Ananiev-Tiraspol-Izmail. At present the next phase of the project, the construction of loopings within the gas pipeline Annaniev-Tiraspol-Izmail, is being introduced. The Transbalkan pipeline project envisages the completion of construction and expansion of the transit capacities within Romania and Bulgaria in 2002.

South Pars

On 28 September 1997, Total (now TotalFinaElf), signed an agreement with the National Iranian Oil Company for the development of the second and third phases of the South Pars field. Gazprom, Petrolian Nacional Berhad (Petronas), the Malaysian state oil company and Total signed a partnership agreement for the development of the project, with a total cost of U.S.$2 billion. Pursuant to the terms of the agreement, Gazprom obtained a 30% interest.

Presently, the construction of two production platforms and two off-shore pipelines is almost completed and the completion of an on-shore gas complex is expected in March 2002. Production of natural gas and gas condensate and oil is expected to start in April 2002.

Rosneft

Within the framework of an agreement entered into by Gazprom and Rosneft on 4 October 2001 to create a joint venture company for the development of Kharampurskoe, Byngayakhinskoe, Etypurovskoe, Prirazlomnoe and Shtokmanovskoe fields, work is being carried out on the Kharampurskoe field project.

Novy Urengoy Chemical Complex

The Novy Urengoy Chemical Complex was designed in cooperation with Salzgitter Anlagenbau and Linde, with some BASF participation. The majority of the equipment necessary to build the Novy Urengoy Chemical Complex in Western Siberia has been delivered.

The Novy Urengoy Chemical Complex will process 1.62 million tonnes of de-ethanised natural gas a year, yielding 340 thousand tonnes of ethylene to be used as feedstock for 300 thousand tonnes of high pressure polyethylene. By-products will include 280 thousand tonnes of long distillate of light hydrocarbons as well as up to 920 thousand tonnes of annual methane gas production. The loan agreement for the financing of this project is currently being negotiated.

Other Joint Ventures

In addition to its activities in Germany, Gazprom has also established further joint ventures to transport and market natural gas in other European markets. In certain countries, Gazprom's subsidiaries or affiliates also distribute natural gas. Gazprom's strategy of acquiring equity participations in gas transportation companies and gas marketing companies, which has been successfully implemented in Germany, has also been applied in other European markets. In Finland, Gazprom acquired a 26% interest in the national gas distribution system in 1994 through the formation of Gasum, a joint venture with Neste (now Fortum). Gasum is the sole distributor of natural gas in Finland and is supplied exclusively by Gazprom. In Poland, Europol Gaz, a joint venture in which Gazprom has a 49% interest, is engaged in the construction of the Polish section of the Yamal-Europe Project. Post completion, Europol Gaz will own the Polish section of the transit pipeline and transport Russian natural gas to Germany. The following table summarises the main natural gas transportation and marketing joint ventures in which Gazprom, or Gazexport, participated in other European markets as at 30 September 2001:

Country	Entity	Interest	Joint Venture Partner	Description
Austria	GWH Gas und Warenhandelsgesellschaft	50%	OMV	Gas marketing and general trading company
Bulgaria	Overgaz	50%	Overgaz	Gas transportation and marketing of Russian natural gas in Balkan countries
Finland	Gasum	25%	Fortum Oy, Ruhrgas, The State of Finland, Finnish companies	Gas transportation and marketing
France	FRAGAZ	50%	Gaz de France	Gas trading and general trading activities
Greece	Prometheus Gas	50%	Copelouzos Group	Gas marketing and natural gas transport management
Hungary	Panrusgaz	33%	MOL	Gas marketing
Italy	Promgas	50%	SNAM	Gas marketing
Poland	Europol Gaz	49%	PGNiG Gas Trading	Transportation, construction, ownership and operation of the Polish section of the Yamal-Europe project
Poland	Gas Trading	16%	PGNiG, Bartimpex, WIEH Wenglokoks	Gas marketing
Slovakia	Slovrusgaz	50%	SPP	Gas transportation and marketing, general trading business
Turkey	Turusgaz	45%	Botas, Gama	Gas marketing

Source: Gazprom.

Non-Core Investments

The Group engages in various non-core activities which are ancillary to its main business. These supporting operations include construction and production of construction materials, food processing and procurement, transportation (including auto transport and aviation), and manufacturing of equipment for the gas industry and telecommunications amongst others.

In addition, Gazprom has investments in various other businesses which are not related to its core operations. Such investments mainly represent equity holdings which have been received in the course of privatisation (e.g. interests in agricultural, civil, construction, medical care enterprises and others), acquired either through debt for equity swaps (e.g. stakes in regional utility companies) or directly for strategic and other considerations. Amongst the Group's largest investments is Gazprombank, although Gazprom's liability is limited to the extent of its equity participation, Russia's fourth largest bank if measured by total assets, which services the majority of Gazprom's banking needs; Gazfund, the largest private pension fund in Russia, which Gazprom uses to provide pension services to its employees; and Gazprom-Media, Gazprom's media holding company with stakes in a number of media outlets, including NTV, Russia's largest independent TV channel. Following recent successful litigation to enforce the share pledge that was given as collateral for the guarantee by Gazprom of loans to Media-MOST, NTV's parent company Gazprom-Media, as of the date of this Offering Circular, controls a 65% stake in NTV and more than 50% in a number of other Media-MOST companies. Gazprom has, however, recently started preparations for the sale of its stakes in NTV and other Media-MOST companies and has obtained an independent evaluation of these stakes.

Capital Expenditure

Net cash used for investment activities decreased by 3% from U.S.$2,218 million in 1999 to U.S.$2,156 million in 2000. An overall 15% increase in cash capital expenditure from U.S.$1,635 million in 1999 to U.S.$1,884 million in 2000 was made possible by the availability of cash flow generated internally through improved operating performance.

The majority of Gazprom's fixed asset investments (both cash and non-cash) were related to capital expenditure on the transportation infrastructure and production assets. Capital expenditure on the transportation infrastructure comprised U.S.$1,617 million, or 35% of total capital expenditure in 2000, down from U.S.$3,269 million in 1999 due to the completion of certain pipeline construction projects. Capital expenditure on production assets comprised U.S.$1,687 million, or 36% of total capital expenditure in 2000, increasing from U.S.$1,246 million in 1999 in line with Gazprom's strategy to develop new gas fields, including Zapolarnoye, in order to maintain production volumes.

Capital expenditure by category for 1999-2000 amounted to the following:

	Year ended 31 December 2000 in U.S.$ million (1)	Year ended 31 December 2000 in RUR million(2)	Year ended 31 December 1999 in U.S.$ million (1)	Year ended 31 December 1999 in RUR million(2)
Transportation	1,617	47,515	3,269	96,063
Production	1,687	49,578	1,246	36,623
Refining	103	3,025	71	2,073
Distribution	13	379	48	1,414
Other	1,205	35,425	1,065	31,293
Total	4,625	135,922	5,698	167,466

Notes:

(1) Totals may not add due to rounding. The U.S.$ amounts shown above have been translated from the Rouble amounts at the rate of RUR 29.39 = U.S.$1.00, which is the rate published by the Central Bank of Russia on 30 September 2001.

(2) All Rouble amounts have been restated in terms of the equivalent purchasing power of the Rouble as at 30 September 2001.

The U.S.$ amounts are provided for convenience only and should not be construed as representations that the Rouble amounts have been or could be converted into U.S.$ at that or any other rate or as being representative of U.S.$ amounts that would have resulted if Gazprom reported its IAS financial statements in U.S.$.

Net cash used for investment activities for the nine month period ended 30 September 2001 was RUR 32,092 million (U.S.$1,092 million).

In 2001, for the implementation of the investment programme Gazprom approved a U.S.$3.23 billion capital expenditure budget. In 2002 Gazprom plans to direct approximately U.S.$4.5 billion for the implementation of the investment programme, an increase attributable to the objective of maintenance of gas production at the level of 520 bcm.

Research and Development

Gazprom has pursued a policy of investing in research and development in a number of priority scientific and technical areas. There has been a focus on expanding the mineral resource base of the gas industry, developing hydrocarbon deposits in new regions (for example, Ob-Taz Estuary, Arctic offshore fields and the Yamal Peninsula), improving the reliability of the UGSS, developing off-shore oil and gas reserves, creating energy and resource saving technologies and next generation equipment, increase in the use of alternative resources of hydrocabon raw materials, improved organisational and management systems of Gazprom, optimised financial, investment and pricing policies and increased ecological and industrial safety.

Total spending on research and development amounted to U.S.$165 million in 2000 which is an increase of 55% from U.S.$107 million in 1999. For the nine month period ending on 30 September 2001 total spending on research and development was U.S.$67 million.

Environmental Matters

Gazprom's current environmental standards and policy follow existing Russian environmental regulations and laws. Gazprom generally considers, with due regard to existing Russian and international environmental standards, the environmental impact at the planning stage and takes this impact into consideration at all later stages of the project. To date, there have been no serious accidents that have had a significant environmental impact.

Gazprom has developed and continues to improve a system for monitoring harmful leaks, water contamination, and the quality of air, water and soil in the Russian regions in which UGSS objects are located based on International Standard ISO 14000. In a number of regions this system has become an integral part of the Russian Federation's unified State Ecological Monitoring System.

In accordance with Russian legal requirements relating to environmental protection, Gazprom makes obligatory payments to ecological funds and state authorities for environment pollution: RUR 74.1 million in 1999; RUR 75.8 in 2000 and RUR 119.0 million in 2001. The increase in the amount of the obligatory payments is the result of the annual introduction of increasing correction coefficients. Moreover Gazprom paid the following environmental penalties: RUR 0.85 million in 1999, RUR 0.8 million in 2000 and RUR 0.5 million in 2001 relating to enviromental protection purposes.

Gazprom's 1999 balance sheet, prepared in accordance with IAS, 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 Gazprom believes is a reasonable and prudent policy which 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, Gazprom's management is unable to estimate the future financial impact of Gazprom's environmental obligations with a high degree of certainty. However, Gazprom does not expect environmental obligations to have a material, adverse effect on its future financial condition.

Litigation and Investigations

Gazprom has been and continues to be, from time to time, the subject of legal proceedings and other investigations in the ordinary course of its business.

In January 2001, the Accounting Chamber of the Russian Federation completed a five month audit of Gazprom. The audit report stated that in 2000 there was a decline in Gazprom's gas production compared to 1999; that there was a decline in capital expenditure; that Gazprom transferred natural gas to the Yamal-Nenets autonomous region as payment for the mineral resource base restoration tax; that there was an increased growth in accounts receivable and payable, that Gazprom had granted low or interest-free loans to third parties; that Gazprom had made long-term investments in non-core activities and that Gazprom in 1998 and 1999 was granted, contrary to tax legislation, a special tax regime which resulted in 1999 of the underpayment to the Federal Budget of RUR 22,020 million.

Gazprom has received a request for information from the European Commission with respect to exclusivity clauses in Gazprom's contracts with various Italian utilities, under which Italian utilities are prevented from selling gas on to other off-takers in Western Europe outside of the Italian market. Gazprom has responded to this request and is currently in discussions with the European Commission.

Rosagazifikatsia has filed a claim against SR-DRAGA (Gazprom's Share Registrar) to recover damages in the amount of RUR 717.2 million as a result of the alleged negligent performance of its obligations as a Registrar in relation to one specific share transfer. Gazprom, under Russian law, is liable for the actions of its Registrar and accordingly was joined as a third party to such claim. The claim was upheld by the court of first instance and SR-DRAGA was ordered to pay RUR 539 million in settlement of the claim. After various appeals SR-DRAGA finally succeeded in having the judgment of the court of first instance overturned.

Inkombank filed a claim against Gazprom to recover debt in the amount of U.S.$72.4 million under a facility agreement. The court in the first instance considered the claim and ordered Gazprom to pay Inkombank U.S.$71.6 million. Gazprom has filed an appeal against the decision. In the course of proceedings in the court of appeal, the parties have entered into an amicable settlement agreement under which Gazprom has agreed to pay U.S.$44.7 million to Inkombank and Inkombank has waived its claim to the remaining part of the debt.

There has been recent press comment and speculation over potential proceedings surrounding recent allegations made by a Russian Federal Tax Police official of tax evasion by Gazprom. However, as at the date of this Offering Circular no official statement had been issued by the Tax Police and no proceedings in this regard had been commenced. Gazprom believes that if any such proceedings are instigated they will be unmeritorious.

Further, there have been recent press reports that a shareholder of Gazprom has filed a lawsuit against PricewaterhouseCoopers, Gazprom's auditor, alleging improprieties in the audits conducted by PricewaterhouseCoopers.

These proceedings and investigations have not had, and are not expected to have, individually or in the aggregate, a material adverse effect on Gazprom's business, operations and financial condition or on Gazprom's ability to service its payment obligations under the Loan.

LOAN AGREEMENT

The following is the text of the Loan Agreement which has been entered into between the Bank and Gazprom:

LOAN AGREEMENT, dated 19 April 2002 **BETWEEN**

(1) **OPEN JOINT STOCK COMPANY GAZPROM** ("**Gazprom**");

(2) **SALOMON BROTHERS AG** (the "**Bank**").

WHEREAS, the Bank has at the request of Gazprom agreed to make available to Gazprom a loan facility in the amount of U.S.$500,000,000 on the terms and subject to the conditions of this Agreement; and

WHEREAS, it is intended that the Bank will issue certain loan participation notes based on amounts payable by Gazprom under the loan facility.

NOW IT IS HEREBY AGREED as follows:

1 Definitions and Interpretation

1.1 Definitions

In this Agreement (including the recitals), the following terms shall have the meanings indicated.

"**Advance**" means the advance to be made under Clause 3 of the sum equal to the amount of the Facility.

"**Affiliates**" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"**Agreed Form**" means that the form of the document in question has been agreed between the proposed parties thereto and that either a copy thereof has been signed for the purpose of identification on behalf of each of Linklaters and Denton Wilde Sapte or such document has been signed on behalf of the parties thereto and delivered to Linklaters to be held in escrow pending release on the Closing Date;

"**Agreement**" means this Agreement as originally executed or as it may be amended from time to time.

"**Business Day**" means a day on which (a) the London Interbank Market is open for dealings between banks generally, and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in New York City and in the city where the specified office of the Principal Paying Agent is located.

"**Consolidated Net Tangible Assets**" means the total of all assets less (i) total liabilities, (ii) goodwill, trade names, trade marks, service marks, patents, licences, organisational expenses, research and development expenses, unamortised debt discount and expense, unamortised deferred charges and all other like intangible assets, (iii) all write-ups of fixed assets, net of accumulated depreciation thereon, after 31 December 2000 excluding, for the avoidance of doubt, any restatement for changes in the general purchasing power of the Rouble in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economics" and revaluations supported by an independent appraisal completed by an appropriately qualified firm and (iv) 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 IAS.

"**Dollars**", "**$**" **and** "**U.S.$**" means the lawful currency of the United States of America.

"**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.

"**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.

"**Event of Default**" has the meaning assigned to such term in sub-Clause 11.1 hereof.

"**Facility**" means the facility specified in Clause 2.

"**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 capitalised 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;

(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.

"**Group**" means Gazprom and its Subsidiaries taken as a whole.

"**IAS**" means the International Accounting Standards issued by the International Accounting Standards Committee (as amended, supplemented or re-issued from time to time).

"**Interest Payment Date**" means 25 April and 25 October of each year.

"**Loan**", at any time, means an amount equal to the aggregate principal amount of the Facility granted by the Bank pursuant to this Agreement.

"**Material Adverse Effect**" means a material adverse effect on (a) the financial condition or operations of Gazprom and its Principal Subsidiaries or (b) Gazprom's ability to perform its obligations under this Agreement or (c) the validity or enforceability of this Agreement or the rights or remedies of the Bank under this Agreement.

"**Notes**" means the U.S.$500,000,000 9.125 per cent. loan participation notes due 2007 proposed to be issued by the Bank pursuant to the Trust Deed for the purpose of financing the Loan.

"**Noteholder**" means the person in whose name the Note is registered in the register of the noteholders (or in the case of joint holders, the first named holder thereof).

"**Officers' Certificate**" means a certificate signed by an officer of Gazprom who shall be the principal executive officer, principal accounting officer or principal financial officer of Gazprom.

"**Opinion of Counsel**" means a written opinion from international legal counsel who is acceptable to the Bank.

"**Paying Agency Agreement**" means the paying agency agreement dated the date hereof, as amended, varied or supplemented between the Bank, Gazprom, The Bank of New York and Kredietbank S.A. Luxembourgeoise relating to the Notes.

"**Permitted Encumbrance**" means:

(i) any Encumbrance existing on the date of this Agreement;

(ii) 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;

(iii) 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;

(iv) any Encumbrance on any property or assets securing Financial Indebtedness of Gazprom or any Subsidiary 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, 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;

(v) any Encumbrance on any property or assets securing Financial Indebtedness of Gazprom or any Subsidiary 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, 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;

(vi) any Encumbrance existing on any property, income or assets prior to the acquisition thereof by Gazprom or any Subsidiary and not created in contemplation of such acquisition, provided that no such Encumbrance shall extend to any other property, income or assets;

(vii) any Encumbrance on the property, income or assets of any Subsidiary securing intercompany Financial Indebtedness of such Subsidiary owing to Gazprom or another Subsidiary;

(viii) 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;

(ix) any Encumbrance securing Financial Indebtedness not exceeding 50 per cent. of Gazprom's Consolidated Net Tangible Assets at any time of determination;

(x) any Encumbrance arising out of the refinancing, extension, renewal or refunding of any Financial Indebtedness of Gazprom or any Subsidiary secured by any Permitted Encumbrance, provided that such Financial Indebtedness is not increased and, if the property, income or assets securing any such 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 is not increased;

(xi) 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

(xii) 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, trust, unincorporated organization, government, or any agency or political subdivision thereof or any other entity.

"**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;

(i) 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) of such Subsidiary and the then latest audited consolidated accounts of Gazprom and its consolidated Subsidiaries; or

(ii) 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 its recourse solely to the asset or project financed and the revenues derived from such asset or project as the principal source of repayment for the moneys advanced.

"**Rate of Interest**" has the meaning assigned to such term in Clause 4.1.

"**Repayment Date**" means 25 April 2007.

"**Same-Day Funds**" means Dollar funds settled through the New York Clearing House Interbank Payments System or such other funds for payment in Dollars as the Bank may at any time determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby.

"**Subscription Agreement**" means the agreement dated the date hereof between the Bank, Gazprom, Salomon Brothers International Limited and Credit Suisse First Boston (Europe) Limited providing for the issuance of the Notes.

"**Subsidiary**" means, with respect to any Person, (i) any corporation, association or other business entity of which at least 50% of the total voting power of shares of Capital Stock 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) and (ii) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such person or (b) 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, the Federal Republic of Germany or any taxing authority thereof or therein or any organisation of which the Russian Federation or the Federal Republic of Germany may be a member or with which the Russian Federation or the Federal Republic of Germany may be associated or any country or state from or through which Gazprom makes payments hereunder, provided, however, that for the purposes of this definition the references to the Federal Republic of Germany shall, upon the occurrence of the Relevant Event (as this term is defined in the Trust Deed), be deemed to be references to the jurisdiction in which the Trustee is domiciled for tax purposes; and the term "Taxation" shall be construed accordingly.

"**Trust Deed**" means the trust deed to constitute the Notes for the equal and rateable benefit of the Noteholders to be dated the Closing Date between the Bank and the Trustee as amended, varied or supplemented from time to time.

"**Trustee**" means The Bank of New York acting through its London Branch, as trustee under the Trust Deed and any successor thereto as provided thereunder.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in the Trust Deed, the Notes, the Paying Agency Agreement or the Subscription Agreement shall have the meanings assigned to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement.

1.3.1 All references to "Clause" or "sub-Clause" are references to a Clause or sub-Clause of this Agreement.

1.3.2 The terms "hereof", "herein" and "hereunder" and other words of similar import shall mean this Agreement as a whole and not any particular part hereof.

1.3.3 Words importing the singular number include the plural and vice versa.

1.3.4 All references to "taxes" include all present or future taxes, levies, imposts and duties of any nature and the terms "tax" and "taxation" shall be construed accordingly.

1.3.5 The table of contents and the headings are for convenience only and shall not affect the construction hereof.

2 Facility

2.1 Facility

On the terms and subject to the conditions set forth herein, the Bank hereby agrees to lend Gazprom and Gazprom hereby agrees to borrow from the Bank U.S.$500,000,000.

2.2 Purpose

The proceeds of the Advance less the sums to be applied in accordance with Clause 3.2 will be used for working capital and general corporate purposes but the Bank shall not be concerned with the application thereof.

2.3 Facility Fee

In connection with the Facility, Gazprom shall upon (and subject to) the making of the Advance to Gazprom by the Bank pay a fee in Dollars to the Bank equal to U.S.$50,000.

3 Drawdown

3.1 Drawdown

On the terms and subject to the conditions set forth herein, on the Closing Date the Bank shall make the Advance to Gazprom and Gazprom shall make a single drawing in the full amount of the Facility.

3.2 Fees and Expenses

In consideration of the Bank making the Advance to Gazprom, Gazprom hereby agrees that it shall pay to the Bank, in Same-Day funds, an amount equivalent to the aggregate total of commissions, fees costs and expenses as set forth in sub-Clauses 8.1, 8.2 and 8.4 of the Subscription Agreement, sub-Clauses 10.1 and 10.2 of the Paying Agency Agreement, Clause 1 and 4 of the Side Letter between the Trustee and Gazprom dated 25 April 2002 (the "**Trustees Side Letter**") and sub-Clause 2.3 and Clause 13 hereof and hereby further agrees that such amount shall be deducted from the amount of the Advance.

Gazprom undertakes to fulfil all of its other payment obligations in respect of the Subscription Agreement and the Paying Agency Agreement in addition to its payment obligations as set out above.

3.3 Disbursement

Subject to the conditions set forth herein, on the Closing Date the Bank shall transfer the amount of the Advance less the amount to be paid by Gazprom pursuant to sub-Clause 3.2 above to Gazprom's account number 40702840400007000001 at Gazprombank Moscow, Swift Code: GAZPRUMM, Account Number: 04414534 at Deutsche Bank Trust Company Americas, New York, NY, Swift Code: BKTR US 33.

4 Interest

4.1 Rate of Interest

Gazprom will pay interest in Dollars to the Bank on the outstanding principal amount of the Loan from time to time hereunder at the rate of 9.125 per cent. per annum (the "**Rate of Interest**").

4.2 Payment

Interest at the rate specified in Clause 4.1 above shall accrue from day to day, starting from (and including) the Closing Date and shall be paid in arrear not later than 10.00 a.m. (New York City time) one Business Day prior to each Interest Payment Date. Interest on the Loan will cease to accrue from the due date for repayment thereof unless payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgement) at the Rate of Interest to but excluding the date on which payment in full of the principal thereof is made. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month the number of days elapsed.

5 Repayment and Prepayment

5.1 Repayment

Except as otherwise provided herein, Gazprom shall repay the Loan not later than 10.00 a.m. (New York City time) one Business Day prior to the Repayment Date.

5.2 Special Prepayment

If, as a result of the application of or any amendments to or change in the double tax treaty between the Russian Federation and the Federal Republic of Germany or the laws or regulations of the Russian Federation or the Federal Republic of Germany or of any political sub-division thereof or any authority therein or the enforcement of the security provided for in the Trust Deed, Gazprom would thereby be required to make or increase any payment due hereunder as provided in Clauses 6.2 or 6.3, or if (for whatever reason) Gazprom would have to or has been required to pay additional amounts pursuant to Clause 8, then Gazprom may (without premium or penalty), upon not less than 10 days' notice to the Bank (which notice shall be irrevocable), prepay the Loan in whole (but not in part).

5.3 Illegality

If, at any time, by reason of the introduction of any change after the date of this Agreement in any applicable law or regulation or regulatory requirement or directive of any agency of any state the Bank reasonably determines (such determination being accompanied by an opinion of Counsel with the cost of such opinion of Counsel being borne solely by Gazprom) that it is or would be unlawful or contrary to such regulation, regulatory requirement or directive for the Bank to allow all or part of the Loan or the Notes to remain outstanding or for the Bank to maintain or give effect to any of its obligations in connection with this Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the Loan, then upon notice by the Bank to Gazprom in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), Gazprom and the Bank shall consult in good faith as to a basis which eliminates the application of such circumstances; provided, however, that the Bank shall be under no obligation to continue such consultation if a basis has not been determined within 30 days of the date on which it so notified Gazprom. If such a basis has not been determined within the 30 days, then upon notice by the Bank to Gazprom in writing, Gazprom shall prepay the Loan in whole (but not in part) on the next Interest Payment Date or on such earlier date as the Bank shall certify to be necessary to comply with such requirements.

5.4 Payment of Other Amounts

If the Loan is to be prepaid by Gazprom pursuant to any of the provisions of Clauses 5.2 or 5.3, Gazprom shall, simultaneously with such prepayment, pay to the Bank accrued interest thereon to the date of actual payment and all other sums payable by Gazprom pursuant to this Agreement.

5.5 Provisions Exclusive

Gazprom may not voluntarily prepay the Loan except in accordance with the express terms of this Agreement. Any amount prepaid may not be reborrowed.

6 Payments

6.1 Making of Payments

All payments of principal and interest to be made by Gazprom under this Agreement shall be made to the Bank not later than 10.00 a.m. (New York City time) one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) in Same-Day Funds to the Bank's account no. 7384418400 with the Principal Paying Agent. The Bank agrees with Gazprom that it will not deposit any other monies into such account and that no withdrawals shall be made from such account other than as provided for and in accordance with the Trust Deed and the Paying Agency Agreement.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by Gazprom under this Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If Gazprom shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any Taxes, it shall increase any payment due hereunder to such amount as may be necessary to ensure that the Bank receives a net amount in Dollars equal to the full amount which it would have received had payment not been made subject to such Taxes, shall account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law and shall deliver to the Bank without undue delay evidence satisfactory to the Bank of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Bank pays any amount in respect of such Taxes, Gazprom shall reimburse the Bank in Dollars for such payment on demand.

6.3 Withholding on Notes

If the Bank notifies Gazprom (setting out in reasonable detail the nature and extent of the obligation with such evidence as Gazprom may reasonably require) that it has become obliged to make any withholding or deduction for or on account of any Taxes from any payment which it is obliged to make under or in respect of the Notes in circumstances where the Bank is required to pay additional amounts pursuant to Condition 8 of the Notes, Gazprom agrees to pay to the Bank, on the date on which payment is due to the Noteholders, such additional amounts as are equal to the said additional amounts which the Bank must pay pursuant to Condition 8 of the

Notes; provided, however, that the Bank shall immediately upon receipt from any Paying Agent of any sums paid pursuant to this provision, to the extent that the Noteholders, as the case may be, are not entitled to such additional amounts pursuant to the terms and conditions of the Notes, pay such additional amounts to Gazprom (it being understood that neither the Bank, nor the Principal Paying Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder is entitled to such additional amount).

6.4 Reimbursement

To the extent that the Bank subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which Gazprom has made a payment pursuant to this Clause 6 or obtains any reimbursement from the Trustee pursuant to the terms of the Trust Deed, it shall pay to Gazprom so much of the benefit it received as will leave the Bank in substantially the same position as it would have been had no additional amount been required to be paid by Gazprom pursuant to this Clause 6 or had no reimbursement been paid to the Bank pursuant to the Trust Deed; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to Gazprom, the amount of any such payment and the timing of any such payment, shall be determined solely by the Bank. The Bank shall have the absolute discretion whether, and in what order and manner, it claims any credits or refunds available to it, and the Bank shall in no circumstances be obliged to disclose to Gazprom any information regarding its tax affairs or computations.

6.5 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of Gazprom to make any deduction, withholding or payment as described in Clauses 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the Bank's rights, or Gazprom's obligations, under such Clauses, such party shall promptly upon becoming aware of such circumstances notify the other party, and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that both parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid such obligation or mitigate the effect of such circumstances. Gazprom agrees to reimburse the Bank for all reasonable costs and expenses incurred by the Bank in connection with this Clause.

7 Conditions Precedent

7.1 Documents to be Delivered

The obligation of the Bank to make the Advance shall be subject to the receipt by the Bank on or prior to the Closing Date of an executed copy of each of the following documents, each (other than the document referred to in Clause 7.1.4 below) dated the Closing Date, in the Agreed Form.

7.1.1 An opinion of Denton Wilde Sapte, counsel to Gazprom, regarding issues of Russian law.

7.1.2 An opinion of Linklaters regarding issues of English law and Russian law.

7.1.3 An opinion of Cleary, Gottlieb, Steen and Hamilton regarding issues of German law.

7.1.4 A letter from PricewaterhouseCoopers regarding certain Russian tax matters.

7.2 Further Conditions

The obligation of the Bank to make the Advance shall be subject to the further conditions precedent that as of the Closing Date (a) the representations and warranties made and given by Gazprom in Clause 9 shall be true and accurate as if made and given on the Closing Date with respect to the facts and circumstances then existing, (b) no event shall have occurred and be continuing that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default, (c) Gazprom shall not be in breach of any of the terms, conditions and provisions of this Agreement and (d) the Subscription Agreement and the Trust Deed shall have been executed and delivered, and the Bank shall have received the full amount of the net subscription moneys for the Notes pursuant to the Subscription Agreement.

8 Change in Law or Banking Practices; Increase in Cost

8.1 Compensation

In the event that after the date of this Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof and/or any compliance by the Bank in respect of the Loan or the Facility with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observances of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) from or of any central or other fiscal, monetary or other authority, agency or any official of any such authority, which:

8.1.1 subjects or will subject the Bank to any Taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement (other than any Taxes payable by the Bank on its overall net income or any Taxes referred to in Clauses 6.2 or 6.3); or

8.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Bank of principal of or interest on the Loan or any other amount payable under this Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Bank on its overall net income or as a result of any Taxes referred to in Clauses 6.2 or 6.3); or

8.1.3 imposes, modifies, or deems applicable any capital adequacy, reserve or deposit requirements attributable to this Agreement or to a class of business or transaction which, in the reasonable opinion of the Bank, includes this Agreement, against assets held by, or deposits in or for the amount of, or credit extended by an office of the Bank; provided, however, that the foregoing shall not include any increase in the rate of tax payable on the overall net income of the Bank as a result of any change in the manner in which the Bank is required to allocate resources to this Agreement; or

8.1.4 imposes or will impose on the Bank any other condition affecting this Agreement, the Facility or the Loan,

and if as a result of any of the foregoing:

(i) the cost to the Bank of making, funding or maintaining the Loan or the Facility is increased; or

(ii) the amount of principal, interest or other amount payable to or received by the Bank hereunder is reduced; or

(iii) the Bank makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from Gazprom hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan, then subject to the following, and in each such case:

(A) the Bank shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to Gazprom, together with a certificate signed by two authorised officials of the Bank describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and all relevant supporting documents evidencing the matters set out in such notes; and

(B) Gazprom, in the case of clauses (i) and (iii) above, shall on demand by the Bank, pay to the Bank such additional amount as shall be necessary to compensate the Bank for such increased cost, and, in the case of clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Bank such additional amount as shall be necessary to compensate the Bank for such reduction, payment or foregone interest or other return; provided, however, that in the case of clause 8.1.3 above (relating to a class of business or transaction which, in the reasonable opinion of the Bank, includes this Agreement), the amount of such increased cost shall be deemed not to exceed an amount equal to the proportion thereof which is directly attributable to this Agreement.

provided that this Clause 8.1 will not apply to or in respect of any matter for which the Bank has already been compensated under Clause 6.2 or 6.3.

8.2 Mitigation

In the event that the Bank becomes entitled to make a claim pursuant to Clause 8.1, the Bank shall consult in good faith with Gazprom and shall use reasonable efforts (based on the Bank's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, Gazprom's obligations to pay any additional amount pursuant to such sub-Clause, except that nothing in this Clause 8.2 shall obligate the Bank to incur any costs or expenses in taking any action which, in the reasonable opinion of the Bank, is prejudicial to its interests.

9 Representations and Warranties

9.1 Gazprom's Representations and Warranties

Gazprom represents and warrants to the Bank as follows, to the intent that such shall form the basis of this Agreement and shall remain in full force and effect at the date hereof and shall be deemed to be repeated by Gazprom on the Closing Date.

9.1.1 Gazprom 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 this Agreement and to borrow the Advance; Gazprom has taken all necessary corporate, legal and other action required to authorise the borrowing of the Advance on the terms and subject to the conditions of this Agreement and to authorise the execution and delivery of this Agreement and all other documents to be executed and delivered by it in connection with this Agreement, and the performance of this Agreement in accordance with its terms.

9.1.2 This Agreement has been duly executed and delivered by Gazprom and 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, (i) to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law); (ii) with respect to the enforceability of a judgment whether there is a treaty in force relating to the mutual recognition of foreign judgments; and (iii) to the fact that the gross-up provisions contained in Clause 6.2 or Clause 6.3 may not be enforceable under Russian law.

9.1.3 The execution, delivery and performance of this Agreement 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 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.

9.1.4 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 of this Agreement have been obtained or effected and are and shall remain in full force and effect.

9.1.5 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 Advance.

9.1.6 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.

9.1.7 Except for Encumbrances of the types referred to in the definition of Permitted Encumbrances in Clause 1.1 hereof, 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 and Gazprom's obligations under the Loan rank at least pari passu with all its other unsecured and unsubordinated Financial Indebtedness (apart from any obligations mandatorily preferred by law).

9.1.8 The most recent audited consolidated financial statements of Gazprom:

(i) were prepared in accordance with IAS; and

(ii) 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.

9.1.9 There has been no material adverse change since 31 December 2000 in the financial condition, results of business operations or prospects of Gazprom or the Group taken as a whole.

9.1.10 The execution, delivery and enforceability of this Agreement 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.

9.1.11 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 this Agreement.

9.1.12 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.

9.1.13 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.

9.1.14 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.

9.1.15 In any proceedings taken in the Russian Federation in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England pursuant to Clause 14.10 in relation to this Agreement will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and all other legal requirements in Russia.

9.1.16 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, provided that the Bank obtains an advance exemption from withholding taxes with respect to such payment.

9.1.17 Its execution of this Agreement 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.

9.1.18 It has no overdue tax liabilities which could have a Material Adverse Effect other than those which it has disclosed to the Bank prior to the date hereof or which it is contesting in good faith.

9.1.19 All licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable Gazprom and any of its Principal Subsidiaries to own its assets and carry on its business are in full force and effect and, if not, the absence of which could have a Material Adverse Effect.

9.1.20 With respect to the offer and sale of the Notes pursuant to the Subscription Agreement, neither Gazprom nor any of its Affiliates nor any person acting on its or their behalf (i) has engaged or will engage in any directed selling efforts (as defined in Regulations S under the U.S. Securities Act of 1933 ("**Regulation S**")) and Gazprom, its Affiliates and any persons acting on its or their behalf have complied and will comply with the offering restrictions requirement of Regulation S.

9.1.21 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.

9.2 Bank's Representations and Warranties:

The Bank represents and warrants to Gazprom as follows.

9.2.1 The Bank is duly incorporated under the laws of and is a resident for German taxation purposes in the Federal Republic of Germany and has full power and capacity to execute this Agreement, the Trust Deed, the Paying Agency Agreement and the Subscription Agreement and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Bank has taken all necessary action to approve and authorise the same.

9.2.2 The execution of this Agreement, the Trust Deed, the Paying Agency Agreement and the Subscription Agreement and the undertaking and performance by the Bank of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of the Federal Republic of Germany or the constitutive documents, rules and regulations of the Bank or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety.

9.2.3 This Agreement, the Trust Deed, the Paying Agency Agreement and the Subscription Agreement constitute legal, valid and binding obligations of the Bank.

9.2.4 All authorisations, consents and approvals required by the Bank for or in connection with the execution of this Agreement, the Trust Deed, the Paying Agency Agreement and the Subscription Agreement, the performance by the Bank of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

10 Covenants

10.1 Negative Pledge

So long as any amount remains outstanding hereunder, 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 hereunder 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 Trustee.

10.2 Maintenance of Authorisations

So long as any amount remains outstanding hereunder, 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 this Agreement or for the validity or enforceability thereof.

10.3 Mergers

So long as any amount remains outstanding hereunder, Gazprom shall not, without the prior written consent of the Bank, 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 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 if such reorganisation or other type of corporate reconstruction could have a material adverse effect on Gazprom's ability to perform its obligations under this Agreement or the validity or enforceability of this Agreement or the rights or remedies of the Bank under this Agreement.

10.4 Disposals

So long as any amount remains outstanding hereunder, Gazprom shall not and Gazprom shall ensure that no member of the Group shall, without the prior written consent of the Bank, (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) 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.

10.5 Maintenance of Property

So long as any amount remains outstanding hereunder, Gazprom and any Principal Subsidiaries 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.

10.6 Payment of Taxes and Other Claims

So long as any amount remains outstanding hereunder, 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 IAS 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.

10.7 Withholding Tax Exemption

10.7.1 The Bank shall use its best endeavours to provide Gazprom no later than 10 business days before the first interest payment date (and thereafter as soon as possible at the beginning of each calendar year but not later than 10 business days prior to the first interest payment date in that year) with the certificate, issued and certified by the competent German authorities, confirming that the Bank is resident in Germany, provided that the Bank shall not be responsible for any failure to provide, or any delays in providing, such residency certificate as a result of any action or inaction of the competent German authorities, but shall notify Gazprom as soon as is practicable about any such failure or delay with an indication of the action taken by the Bank to obtain such residency certificate.

10.7.2 Gazprom and the Bank agree that, should the Russian legislation regulating the procedure for obtaining an exemption from Russian income tax withholding change then the procedure referred to in Clause 10.7.1 will be deemed changed accordingly.

10.8 Maintenance of Insurance

So long as any amount remains outstanding hereunder, 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.

10.9 Reports

10.9.1 So long as any amount remains outstanding hereunder, Gazprom will furnish to the Bank commencing with the year ending 31 December 2001, within 9 months of the relevant year-end audited annual financial statements prepared in accordance with IAS, including a report thereon by Gazprom's certified independent accountants.

10.9.2 On each Interest Payment Date, Gazprom shall deliver to the Bank a written notice in the form of an Officers' 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.

10.9.3 Gazprom will on request of the Bank provide the Bank with such further information, other than information which Gazprom determines in good faith to be confidential, about the business and financial condition of Gazprom and its Subsidiaries as the Bank may require (including pursuant to Clauses 15.5 and 15.12 of the Trust Deed).

10.10 Compliance with Terms of Trust Deed

The Bank agrees that it will observe and comply with its obligations set out in the Trust Deed and will not agree to any amendment to the terms of such Trust Deed without prior consultation, if reasonably practicable, with Gazprom. In addition, the Bank agrees that it will only exercise its power to appoint a new Trustee pursuant to Clause 27.1 of the Trust Deed with the consent of Gazprom (such consent not to be unreasonably withheld or delayed).

11 Events of Default

11.1 Events of Default

If one or more of the following events of default (each, an **"Event of Default"**) shall occur and be continuing, the Bank shall be entitled to the remedies set forth in Clause 11.3.

11.1.1 Gazprom fails to pay within three Business Days any amount payable hereunder as and when such amount becomes payable in the currency and in the manner specified herein, 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 Bank receives from Gazprom that amount within six Business Days after the due date for payment.

11.1.2 Gazprom fails to perform or observe any of its other obligations under this Agreement 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 Bank may permit) next following the submission by the Bank to Gazprom of notice in writing requesting the same to be remedied.

11.1.3 Any representation or warranty of Gazprom or any statement deemed to be made by Gazprom in this Agreement or in any other document, certificate or notice delivered to the Bank in connection with this Agreement 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.

11.1.4 Gazprom or any Principal Subsidiary (i) fails to pay any of its Financial Indebtedness as and when such Financial Indebtedness becomes payable, taking into account any applicable grace period or (ii) 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 Clause 11.1.4 shall not apply to foreign currency Financial Indebtedness owed to Russian Persons.

11.1.5 Gazprom 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.

11.1.6 Gazprom 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.

11.1.7 Gazprom or any Principal Subsidiary (i) fails or is unable to pay its debts generally as they become due or (ii) 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 (iii) a bankruptcy (insolvency) petition in respect of Gazprom or any Principal Subsidiary is accepted by any competent court and bankruptcy proceedings are initiated by such competent court, or any action is brought in and accepted by any competent court for the liquidation of Gazprom or any Principal Subsidiary or 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.

11.1.8 Any governmental authorisation necessary for the performance of any obligation of Gazprom under this Agreement fails to be in full force and effect.

11.1.9 Any governmental authority or court takes any action that has a material adverse effect on Gazprom's ability to perform its obligations under this Agreement or the validity or enforceability of this Agreement or the rights or remedies of the Bank under this Agreement.

11.1.10 Any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part of, the assets of Gazprom 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 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.

11.1.11 The aggregate amount of unsatisfied judgements, decrees or orders of courts of competent jurisdiction or other appropriate and competent law-enforcement bodies for the payment of money against Gazprom and its Principal Subsidiaries in the aggregate exceeds U.S.$5,000,000, or the equivalent thereof in any other currency or currencies and there is a period of 30 days following the entry thereof during which such judgment, decree or order is not discharged, waived or the execution thereof stayed and such default continues for ten days after the notice specified in Clause 11.2.

11.1.12 Any seizure, compulsory acquisition, expropriation, nationalisation or renationalisation after the date of this Agreement by or under the authority of a government authority of all or part (the book value of which is fifteen per cent. (15%) or more of the book value of the whole) of the assets or all or more than fifteen per cent. (15%) of the voting or non-voting shares of Gazprom or any Principal Subsidiary is made by any person.

11.1.13 Gazprom or any of its Principal Subsidiaries ceases to carry on the principal business it carries on at the date hereof.

11.1.14 At any time it is or becomes unlawful for Gazprom to perform or comply with any or all of its obligations under this Agreement or any of such obligations (subject as provided in Clause 9.1.2) are not, or cease to be, legal, valid, binding and enforceable.

11.1.15 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.

11.2 Notice of Default

Gazprom shall deliver to the Bank and the Trustee, within 30 days after 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.

11.3 Default Remedies

If any Event of Default shall occur and be continuing, the Bank may, by notice in writing to Gazprom, (a) declare the obligations of the Bank hereunder to be terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable hereunder by Gazprom that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by Gazprom; provided, however, that if any event of any kind referred to in Clause 11.1.7 occurs, the obligations of the Bank hereunder shall immediately terminate, and all amounts payable hereunder by Gazprom that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are especially waived by Gazprom.

11.4 Rights Not Exclusive

The rights provided for herein are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12 Indemnity

12.1 Indemnification

Gazprom undertakes to the Bank that if the Bank, each director, officer, employee or agent (other than the Principal Paying Agent or any of the Paying Agents) of the Bank (each an "**Indemnified Party**") incurs any loss, liability, cost, claim, charge, expense (including all legal fees properly incurred) demand or damage (a "**Loss**") which may be properly incurred in respect of this Agreement (or enforcement thereof), and/or the issuance, constitution, sale, listing and/or enforcement of the Notes and/or the Notes being outstanding (excluding a Loss that is the subject of the undertakings contained in Clauses 8 and 13 and Clause 14.6 of this Agreement (it being understood that the Bank may not recover twice in respect of the same Loss)) Gazprom shall pay to the Indemnified Party on demand an amount equal to such Loss (as evidenced by an invoice distributed to Gazprom by the Bank in accordance with Clause 14.4) unless, in any such case, such Loss was either caused by such Indemnified Parties' negligence or wilful misconduct or arise out of a breach of the representations and warranties of the Bank contained in the First Schedule to the Subscription Agreement; provided that this Clause 12.1 will not apply to or in respect of any Taxes with respect to payments of principal and interest on the Loan or any other amount payable under this Agreement.

12.2 Independent Obligation

Clause 12.1 constitutes a separate and independent obligation of Gazprom from its other obligations under or in connection with this Agreement or any other obligations of Gazprom in connection with the issuance of the Notes by the Bank and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

12.3 Evidence of Loss

A certificate of the Bank setting forth the amount of losses, expenses and liabilities described in Clause 12.1 and specifying in full detail the basis therefor shall be prima facie evidence of the amount of such losses, expenses and liabilities.

12.4 Survival

The obligations of Gazprom pursuant to Clauses 6.2, 6.3 and 12.1 shall survive the execution and delivery of this Agreement, the drawdown of the Facility and the repayment of the Loan, in each case by Gazprom.

13 Expenses

13.1 Reimbursement of Front-end Expenses for the Extension of the Loan By The Bank

Gazprom shall, subject to the terms contained in a side letter of even date herewith, reimburse the Bank in Dollars on demand for all reasonable costs and expenses incurred by the Bank in connection with the negotiation, preparation and execution of this Agreement and all related documents, the Notes and all related documents, including, without limitation, the fees and expense of its counsel.

13.2 Reimbursement of Ongoing Expenses for the Extension of the Loan By The Bank

In addition, Gazprom hereby agrees to make any and all payments, and to pay any and all commissions, costs and expenses, in Dollars, owing to Salomon Brothers International Limited and Credit Suisse First Boston (Europe) Limited or any third party by the Bank under or in respect of the Subscription Agreement, including, without limitation, the payments required under Clauses 5 and 8 of the Subscription Agreement. Gazprom shall also reimburse the Bank for any indemnification or other payment obligations of the Bank under or in respect of the Trust Deed (other than the obligation of the Bank to make payments of principal, interest or additional amounts in respect of the Notes).

14 General

14.1 Evidence of Debt

The entries made in the account referred to in Clause 6.1 shall, in the absence of manifest error, constitute prima facie evidence of the existence and amounts of Gazprom's obligations recorded therein.

14.2 Stamp Duties

Gazprom shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed by any person in the Russian Federation or the Federal Republic of Germany which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and shall indemnify the Bank against any and all costs and expenses which may be incurred or suffered by the Bank with respect to, or resulting from, delay or failure by Gazprom to pay such taxes or similar charges.

14.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Bank or Gazprom, any right, power to privilege hereunder and no course of dealing between Gazprom and the Bank shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights, or remedies provided by applicable law.

14.4 Notices

All notices, requests, demands or other communications to or upon the respective parties hereto shall be given or made by telex or otherwise in writing and shall be deemed to have been duly given or made at the time of delivery, if delivered by hand or courier or if sent by facsimile transmission or by airmail, to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Agreement addressed as follows:

(a) if to Gazprom:

OAO Gazprom
16 Nametkina Street
117884 Moscow
Russian Federation

Telecopier:	(7095) 719 8352
Attention:	Corporate Finance Department

(b) if to the Bank:

Salomon Brothers AG
Frankfurter Welle
Reuterweg 16
60323 Frankfurt am Main

Telecopier:	(49 69) 232 570
Attention:	Operations Department

or to such other address or telecopier number as any party may hereafter specify in writing to the other.

14.5 Assignment

14.5.1 This Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Bank, following the enforcement of the security and/or assignment referred to in Clause 14.5.3 below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any discussions between the Bank and Gazprom or any agreements of the Bank or Gazprom pursuant to Clauses 6.4 or 6.5 or Clause 8.

14.5.2 Gazprom shall not assign or transfer all or any part of its rights or obligations hereunder to any other party except as otherwise expressly permitted herein.

14.5.3 The Bank may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except (i) the charge by way of first fixed charge granted by the Bank in favour of the Trustee (as Trustee) of the Bank's rights and benefits under this Agreement and (ii) the absolute assignment by the Bank to the Trustee of certain rights, interests and benefits under this Agreement, in each case, pursuant to Clause 4 of the Trust Deed.

14.6 Currency Indemnity

To the fullest extent permitted by law, the obligation of Gazprom in respect of any amount due in Dollars under this Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in Dollars that the Bank may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which the Bank receives such payment. If the amount in Dollars that may be so purchased for any reason falls short of the amount originally due (the "**Due Amount**"), Gazprom hereby agrees to indemnify and hold harmless the Bank against any deficiency in Dollars. Any obligation of Gazprom not discharged by payment in Dollars shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect. If the amount in Dollars that may be purchased exceeds that Due Amount the Bank shall promptly pay the amount of the excess to Gazprom.

14.7 Prescription

Subject to the Bank having received the principal amount thereof or interest thereon from Gazprom, the Bank shall forthwith repay to Gazprom the principal amount or the interest amount thereon, respectively, of any Notes upon such Notes becoming void pursuant to Condition 11 of the Notes.

14.8 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

14.9 Choice of Law

This Agreement shall be governed by, and construed in accordance with, the laws of England.

14.10 Jurisdiction

14.10.1 For the exclusive benefit of the other party, each of Gazprom and the Bank hereby irrevocably agrees that the courts of England shall have jurisdiction to settle any disputes which may arise out of or in connection with this Agreement and that accordingly any suit, action or proceeding (collectively, "**Proceedings**") arising out of or in connection with this Agreement may be brought in such courts.

14.10.2 Each of the parties irrevocably waives any objection which it may now or hereafter have to the laying of the venue of any Proceedings in any such court referred to in this Clause 14 and any claim that any such Proceedings have been brought in an inconvenient forum and further irrevocably agrees that a final and conclusive judgment in any Proceedings brought in the English courts with competent jurisdiction shall be conclusive and binding and may be enforced in the courts of any other jurisdiction.

14.10.3 Nothing contained in this Agreement shall limit the right of any party to take Proceedings against another party in any other court of competent jurisdiction to the extent permitted by any applicable law, nor shall the taking of Proceedings in connection with this Agreement in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction or in any other court of competent jurisdiction in connection with this Agreement to the extent by any applicable law.

14.10.4 Gazprom hereby agrees that, at the option of the Bank, any dispute, controversy, claim or cause of action brought by any party against another party or arising out of or relating to this Loan Agreement may be settled by arbitration in accordance with the

Rules of the London Court of International Arbitration, which rules are deemed to be incorporated by reference into this clause. The place of arbitration shall be London, England and the language of the arbitration shall be English. The number of arbitrators shall be three, each of whom shall be disinterested in the dispute or controversy, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions. Each party shall nominate an arbitrator, who, in turn, shall nominate the Chairman of the Tribunal. If a dispute, claim controversy or cause of action shall involve more than two parties, the parties thereto shall attempt to align themselves in two sides (i.e. claimant and respondent) each of which shall appoint an arbitrator as if there were only two sides to such dispute, claim controversy or cause of action. If such alignment and appointment shall not have occurred within twenty (20) calendar days after the initiating party serves the arbitration demand or if a Chairman has not been selected within thirty (30) calendar days of the selection of the second arbitrator, the Arbitration Court of the London Court of International Arbitration shall appoint the three arbitrators or the Chairman, as the case may be. The parties and the Arbitration Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The arbitrators shall have no authority to award punitive or other punitive type damages and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Agreement.

Fees of the arbitration (excluding each party's preparation, travel, attorneys' fees and similar costs) shall be borne in accordance with the decision of the arbitrators. The decision of the arbitrators shall be final, binding and enforceable upon the parties and judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that the failure of a party to comply with the decision of the arbitrators requires any other party to apply to any court for enforcement of such award, the non-complying party shall be liable to the other for all costs of such litigation, including reasonable attorneys' fees.

14.10.5 **Bank's Process agent**: The Bank agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Citibank, N.A., General Counsel, Citigroup Centre, 33 Canada Square, Canary Wharf, London E14 5LB or its other principal place of business in England for the time being or at any other address for the time being at which process may be served on such person in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such person is not or ceases to be effectively appointed to accept service of process on the Bank's behalf, the Bank shall, on the written demand of Gazprom, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, Gazprom shall be entitled to appoint such a person by written notice to the Bank. Nothing in this Clause shall affect the right of Gazprom to serve process in any other manner permitted by law.

14.10.6 **Borrower's Process agent**: Gazprom agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Gazprom (U.K.) Limited at 35 Vine Street, London EC3N 2AA or its other principal place of business in England for the time being or at any other address for the time being at which process may be served on such person in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such person is not or ceases to be effectively appointed to accept service of process on Gazprom's behalf, Gazprom shall, on the written demand of the Bank, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Bank shall be entitled to appoint such a person by written notice to Gazprom. Nothing in this Clause shall affect the right of the Bank to serve process in any other manner permitted by law.

14.11 Counterparts

This Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the date first written above.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which will be attached to the Notes in definitive form, if any, and (subject to the provisions thereof) apply to the Global Note.

The U.S.$500,000,000 Fixed Rate Loan Participation Notes due 2007 (the "Notes" which expression includes any further Notes issued pursuant to Condition 15 and forming a single series herewith), without coupons, of Salomon Brothers AG (the "Bank") 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 25 April 2002 and made between the Bank and The Bank of New York (the "Trustee", which expression shall include any successors) as trustee for the holders of the Notes (the "Noteholders").

The Bank has authorised the creation, issue and sale of the Notes for the sole purpose of financing a U.S.$500,000,000 5-year loan (the "Loan") to Open Joint Stock Company GAZPROM (the "Borrower"). The Bank and the Borrower have recorded the terms of the Loan in a loan agreement (the "Loan Agreement") dated 19 April 2002 between the Bank and the Borrower.

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Bank to make any such payment shall constitute an obligation only to procure to be paid to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Bank pursuant to the Loan Agreement.

The Bank has charged by way of first fixed charge in favour of the Trustee certain of its rights and interests as lender under the Loan Agreement (other than any rights and benefits constituting Reserved Rights (as defined in the Trust Deed) as security for its payment obligations in respect of the Notes and under the Trust Deed and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (the "Loan Administration Assignment" and together with the charge by way of first fixed charge, the "Security Interests"). 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 Loan Administration Assignment).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Borrower) pursuant to a paying agency agreement (the "Agency Agreement") dated 25 April 2002 and made between the Bank, The Bank of New York, New York Branch as paying agent and the registrar (the "Registrar", which expressions shall include any successors), The Bank of New York, London Branch as the principal paying agent (the "Principal Paying Agent") and Kredietbank S.A. Luxembourgeoise as paying agent and transfer agent (the "Transfer Agent"), which expressions shall include any successors, the Borrower and the Trustee.

Copies of the Trust Deed, the Loan Agreement and the Agency Agreement are available for inspection at the principal office of the Trustee being, at the date hereof, at One Canada Square, London E14 5AL and at the specified office of the Paying Agent in Luxembourg.

The statements contained in these Terms and 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.

1 Status

The sole purpose of the issue of the Notes is to provide the funds for the Bank to finance the Loan. The Notes constitute the obligation of the Bank to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Bank pursuant to the Loan Agreement.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Bank by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement will be made *pro rata* among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Bank shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, the Bank shall be under no obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Bank and the Borrower.

Noteholders have notice of, and have accepted, these Terms and Conditions and the contents of the Trust Deed and the Loan Agreement, and have hereby accepted that:

(a) neither the Bank 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 (f) below, liability or obligation in respect of the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from the Borrower under the Loan Agreement;

(b) neither the Bank 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 Borrower;

(c) neither the Bank nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;

(d) neither the Bank nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, any of the Paying Agents, the Registrar or the Transfer Agent of their respective obligations under the Agency Agreement;

(e) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Borrower of its obligations under the Loan Agreement and its covenant, credit and financial standing. The Borrower has represented and warranted to the Bank in the Loan Agreement that the Loan Agreement constitutes a legal, valid and binding obligation of the Borrower; and

(f) the Bank and the Trustee shall be entitled to rely on self-certification of the Borrower as a means of monitoring whether the Borrower is complying with its obligations under the Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Bank to the assigned property whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security; the Trustee has no responsibility for the value of such security.

Under the Trust Deed, the obligations of the Bank in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by the Borrower to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Bank in respect of the Notes.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Bank's right under or in respect of the Loan Agreement 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 Loan Agreement or direct recourse to the Borrower except through action by the Trustee pursuant to the Loan Administration Assignment granted to the Trustee in the Trust Deed. Neither the Bank nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction.

2 Form and Denomination

The Notes are issued in fully registered form, and in the denomination of U.S.$1,000 or integral multiples thereof, without interest coupons.

3 Register, Title and Transfers

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.

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.

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 the Transfer Agent, together with such evidence as the Registrar or the 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.

Subject to the last paragraph of this Condition, 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 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.

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.

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 Covenant

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Bank 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 Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Loan Agreement. 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 Bank to the Noteholders in accordance with Condition 14.

5 Interest

On each Interest Payment Date the Bank shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Bank pursuant to the Loan Agreement, which interest under the Loan is equal to 9.125% per annum as set out in Clause 4 of the Loan Agreement. Interest shall continue to accrue on overdue interest at the same rate per annum up to the maximum extent permitted by applicable law.

If interest is required to be calculated for any period of less than a year, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

In this Condition 5, "Interest Payment Date" means 25 April and 25 October of each year.

6 Redemption

Unless previously prepaid or repaid, the Borrower will be required to repay the Loan on 25 April 2007 and, subject to such repayment, as set forth in the Loan Agreement, all the Notes then remaining outstanding will on that date be redeemed or repaid by the Bank at 100% of the principal amount thereof.

If the Loan should become repayable (and be repaid) pursuant to the Loan Agreement prior to 25 April 2007, as set forth in the Loan Agreement, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at par together with accrued interest (and, subject to the Loan being repaid together with accrued interest, shall be redeemed or repaid) and the Bank will endeavour to give not less than 8 days' notice thereof to the Trustee and the Noteholders.

7 Payments

Payments of principal shall be made by U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of the Transfer Agent.

Payments of interest shall be made by U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of the Transfer Agent.

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.

If the due date for payments of interest or redemption 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 on which the London Interbank Market is open for dealings between banks generally, and if on that day a payment is to be made hereunder, commercial banks generally are open for business in New York City and in the city where the specified office of the Principal Paying Agent is located.

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's specified office) on the fifteenth day before the due date for such payment.

The Agency Agreement provides that the Bank may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent or any of the Paying Agents, and appoint additional or other paying agents provided that so long as the Notes are listed on the Luxembourg Stock Exchange (the "Stock Exchange"), there will be a paying agent and transfer agent with a specified office in Luxembourg or such other place in accordance with the rules of the Stock Exchange. 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 addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Closing Date, shall be payable only as and when actually received by or for the account of the Bank pursuant to the Loan Agreement.

Save as directed by the Trustee at any time after the security created in the Trust Deed becomes enforceable, the Bank will require the Borrower to make all payments of principal and interest to be made pursuant to the Loan Agreement to the Principal Paying Agent for the account of the Bank. Under the Security Interests the Bank will charge by way of first fixed charge all the rights, title and interest in and to all sums of money then or in the future deposited in such account in favour of the Trustee for the benefit of the Noteholders.

8 Taxation

All payments in respect of the Notes by or on behalf of the Bank 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 the Federal Republic of Germany 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 Bank 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. However, the Bank shall only make such additional payments to the extent and at such time as it shall receive equivalent sums from the Borrower under the Loan Agreement. To the extent that the Bank does not receive any such equivalent sum, the Bank shall account to the relevant Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received by, or for the account of, the Bank pursuant to the provisions of the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Bank provided that no such additional amount will be payable:

(i) 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 the Federal Republic of Germany other than the mere holding of such Notes or the receipt of payments in respect thereof;

(ii) 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 thirtieth day;

(iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iv) 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 Agent in a Member State of the European Union.

As used herein, "Relevant Date" (i) means the date on which the equivalent payment under the Loan Agreement first becomes due but (ii) if the full amount payable by the Borrower has not been received by, or for the account of, the Bank pursuant to the Loan Agreement on or prior to such date, means the date on which such full amount shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Bank.

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 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 to do so within a reasonable period and such failure is continuing.

The Trust Deed also provides that, in the case of an Event of Default (as defined in the Loan Agreement), or of a Relevant Event (as defined in the Trust Deed), the Trustee may, and shall, if requested to do so by Noteholders owning 25% 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 to be due and payable (in the case of an Event of Default), or enforce the security created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). 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.

10 Meetings of Noteholders; Modification of Notes, Trust Deed and Loan Agreement; Waiver; Substitution of the Bank

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 Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed or, following the creation of the Security Interests, the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error 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 Bank of the Terms and Conditions of the Notes or the Trust Deed or, following the creation of the Security Interests, by the Borrower of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, 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.

The Trust Deed contains provisions to the effect that the Bank 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 Bank 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 Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes.

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 Bank or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

11 Prescription

Notes will become void unless presented for payment of principal within ten years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12 *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 Loan Agreement or the security created in respect thereof or for the performance by the Bank of its obligations under or in respect of the Notes and the Trust Deed or by the Borrower in respect of the Loan Agreement.

13 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 in New York 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 Bank or the Trustee. Mutilated or defaced Notes must be surrendered before replacements will be issued.

14 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, published in a 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.

15 Further Issues

The Bank may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. Such further Notes shall be issued under a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides.

16 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.

17 Governing Law

The Notes and the Trust Deed are governed by and shall be construed in accordance with, English law. The Bank 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.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will be represented by a Global Note which will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg.

The Global Note will become exchangeable in whole but not in part (free of charge to the holder), for definitive Notes ("Definitive Notes") if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holidays) or announces an intention permanently to cease business or (b) if the Bank 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.

Whenever the Global Note is to be exchanged for Definitive Notes, such Definitive Notes will be issued in an aggregate principal amount equal to the principal amount of the Global Note following delivery, by or on behalf of the registered holder of the Global Note, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Definitive Notes (including, without limitation, the names and addresses of the persons in whose names the Definitive Notes are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note at the Specified Office of the Registrar or the Transfer Agent. Such exchange will be effected in accordance with the provisions of the Agency Agreement, the Trust Deed and the Global Note.

In addition, the Global Note will contain a provision which modifies the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note. The following is a summary of this provision:

Notices: Notwithstanding Condition 14 *(Notices)*, so long as the Global Note is held by or on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an "Alternative Clearing System"), notices to Noteholders represented by the Global Note may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System; *provided, however, that,* so long as the Notes are listed on the Luxembourg Stock Exchange and its rules so require, notices will also be published in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

TAXATION

Prospective purchasers of the Notes are advised to consult their own tax advisers 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 receipt of interest and sale or redemption of the Notes. The following is a general description of certain tax laws relating to the Notes and the Loan 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

General

The following is a summary of certain Russian tax considerations relevant to purchase, ownership and disposition of the Notes as well as concerning taxation of payments of interest on the Loan. 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, and 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 advisers regarding the tax consequences of investing in the Notes. 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. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates.

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 or a legal person or organisation in each case not organised under Russian law which holds and disposes of the Notes otherwise than through a permanent establishment in Russia.

The Russian tax treatment of interest payments made by Gazprom to the Bank under the Loan Agreement may affect the holders of the Notes. See below "Taxation of Interest on the Loan".

Non-Resident Holders

A non-resident holder of a Note will not be subject to any Russian taxes on receipt from the Bank of amounts payable in respect of principal, of, or interest on, the Note subject to what is said in "Taxation of Interest on the Loan".

A non-resident holder generally should not be subject to any Russian taxes in respect of gains or other income realised on the sale or other disposition of the Notes outside Russia provided there is no income from a source within Russia.

A non-resident holder which is a legal person or organisation should not be subject to withholding tax on any gain on the disposal of Notes even if payment is received from within Russia, although there is some residual uncertainty regarding the treatment of any part of such gain which is attributable to accrued interest on the Notes. Accrued interest may be distinguished from the total gain and taxed at a rate of 20%. The separate taxation of the interest accrued may create a tax liability in relation to interest even in a situation of a capital loss on the disposal of the Notes.

A non-resident holder who is a physical person will generally be subject to tax at the rate of 30% on the gross proceeds from the disposal of the Notes less any available cost deductions (taxable base) where the proceeds of such disposal are received from a source within Russia, subject to any available double tax treaty relief. If the Notes are disposed of in Russia, the proceeds of such disposal are likely to be regarded for personal income tax purposes as income from a source within Russia. In certain circumstances, if the disposal proceeds are payable by a Russian organisation, individual entrepreneur or a Russian permanent establishment of a foreign organisation, the payer may be required to withhold this tax. 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.

Resident Holders

A holder of a Note who is a physical or legal person resident in Russia for tax purposes is subject to all applicable Russian taxes.

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%, absent 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 under the terms of the double taxation treaty between Russia and the Federal Republic of Germany. However there can be no assurance that such relief will be obtained. If, as a result of the enforcement by the Trustee of the security granted to it by the Bank by way of the security interests created in the Trust Deed, interest under the Loan becomes payable to the Trustee, the benefit of the double tax treaty between Russia and the Federal Republic of Germany would cease and payments of interest may be subject to Russian withholding tax.

VAT is not applied to the rendering of financial services involving the provision of a loan in monetary form. Therefore no VAT will be payable in Russia on interest payments.

If the payments under the Loan Agreement are subject to any withholding (as a result of which the Bank would reduce payments under the Notes in the amount of such withholding), Gazprom is obliged to increase payments as may be necessary so that the net payments received by the Bank will not be less than the amount it would have received in the absence of such withholding. 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 increase payments, such failure would constitute an Event of Default under the Loan Agreement. If Gazprom is obliged to increase payments, it may prepay the Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest.

Federal Republic of Germany

The following is a general discussion of certain German income tax consequences of the acquisition, ownership and disposition of Notes to original purchasers of the Notes. This summary is based on the laws currently in force and as applied in practice on the date of this Offering Circular, which are subject to change, possibly with retroactive effect.

Tax Residents

Under German law, as currently in effect, payments of interest on the Notes to persons who are residents of Germany (that is, persons whose residence, customary place of abode, head office or central management is located in Germany) are subject to German personal or corporate income tax. If the Notes are kept or administered in a domestic securities deposit account by a German financial institution, which term includes a German branch of a foreign financial institution but excludes a foreign branch of a German financial institution, interest payments in respect of such Notes will be subject to a 30% capital yield tax (*Zinsabschlagsteuer*) and a 5.5% solidarity surcharge on such tax. As a result, such payments will be subject to a total withholding tax charge of 31.65%. The *Zinsabschlagsteuer* and solidarity surcharge withheld from such payments are later credited as prepayments against the German personal or corporate income tax and the respective solidarity surcharge of the recipient.

If a holder sells a Note during a current interest period, the accrued interest received in connection therewith (*Stückzinsen*) will also be subject to personal or corporate income tax and the 30% *Zinsabschlagsteuer* and solidarity surcharge. *Stückzinsen* paid by a holder upon the purchase of a Note reduces the personal or corporate income tax base and, under certain circumstances, the taxable base for the *Zinsabschlagsteuer* and solidarity surcharge.

Non-Tax Residents

Payments of interest to persons who are not tax residents of Germany and have no connection with Germany other than the receipt of payments in respect of the Notes are exempt from the German withholding tax and solidarity surcharge.

If the interest from a Note kept or administered in a German securities deposit account is received by persons who are not residents of Germany and for whom interest paid in respect of the Notes constitutes income from German sources (e.g., income effectively connected with a German trade or business), the 30% *Zinsabschlagsteuer* and the 5.5% solidarity surcharge are applicable but can be credited toward the German personal or corporate income tax liability of such non-residents.

Other Taxes

Gains realised by persons who are not tax residents of Germany from the sale or other disposition of Notes that are not held as part of a permanent establishment or fixed base in Germany will not be subject to tax in Germany. No stamp, issue, registration, or similar taxes or duties will be payable in Germany in connection with the issuance, delivery or execution of the Notes.

EU Withholding Tax

The European Union is currently considering proposals for a new 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 to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of certain Member States to opt instead for a withholding system for a transitional period in relation to such payments.

SALOMON BROTHERS AG

The Bank is licensed under the laws of the Federal Republic of Germany and is supervised and regulated by the German Banking Supervisory Authority and the German Bundesbank. The Bank was licensed as a bank with effect from 22 October 1986 in Frankfurt am Main and is engaged in various banking and investment banking activities.

The Bank is affiliated to Salomon Brothers International Limited but is not an affiliate of the Borrower.

The fully paid up share capital of the Bank is DM 450,000,000, and the amount of its capital reserves as of 31 December 2001 was DM 2,816,945.

The Members of the Management Board of the Bank are Dr Frank Müller, Christoph Lampert and Dieter Visser.

Since the Bank's sole obligation in respect of the Notes is to make certain payments as and when payments on the Loan are received pursuant to the Loan Agreement, financial information relating to the Bank is not included in this Offering Circular.

SUBSCRIPTION AND SALE

Salomon Brothers International Limited, Credit Suisse First Boston (Europe) Limited, and Alpha Bank A.E., Bayerische Hypo-und Vereinsbank AG, Commerzbank Aktiengesellschaft, ING Bank N.V., London Branch, GazInvest Finance B.V., MDM Bank, Vnesheconombank and Westdeutsche Landesbank Girozentrale, London Branch, (together the "Managers") have, pursuant to the terms and conditions set forth in a subscription agreement, dated 19 April 2002 (the "Subscription Agreement"), jointly and severally agreed with the Bank, 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 commissions of 1.00% of the principal amount of the Notes. The Borrower has agreed to pay certain costs in connection with the offering of the Notes and to reimburse the Managers, the Bank and the Trustee for certain of their expenses in connection with 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 Bank.

The Notes have not been and will not be registered under the United States Securities Act of 1933 (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, any "U.S. person" as defined in Regulation S under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Managers have represented and agreed that neither they nor any of their affiliates nor any person acting on their behalf have offered or sold or will offer or sell any Notes as part of their distribution except outside the United States in offshore transactions (as defined in Regulation S under the Securities Act) meeting the requirements of Rule 903 of Regulation S under the Securities Act. In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

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 payment date 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 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 Financial Services and Markets Act 2000 (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 Borrower or the Loan Guarantor, and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

No sales prospectus (*Verkaufsprospekt*) under the German Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) has been, or will be, prepared by the Bank or the Managers in connection with the offering of the Notes. Each Manager has represented, warranted and undertaken that it has offered and sold, and will offer and sell, the Notes only in full accordance with the German Securities Sales Prospectus Act.

Each Manager has agreed that the Notes will not be offered, transferred 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 to the extent otherwise permitted under Russian law.

Each Manager has agreed that it has complied and will comply with applicable laws and regulations in each jurisdiction which it offers, sells or delivers Notes or distributes this Offering Circular (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Bank or the Borrower.

The Borrower is a party to the Subscription Agreement and has given certain representations and warranties, covenants and indemnities to the Managers and the Bank therein.

GENERAL INFORMATION

1. The Notes represented by the Global Note have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 014665510. The International Securities Identification Number for the Notes is XS0146655104.

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 Charter of Gazprom (together with an English translation) will be deposited with the Chief Registrar of the District Court in Luxembourg ("*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*") where such documents may be examined and copies obtained.

3. Gazprom and the Bank have obtained all necessary consents, approvals and authorisations in Russia and Germany in connection with the Loan and the issue and performance of the Notes. The Loan and the issue of the Notes were authorised by the Resolution of the Board of Directors of Gazprom passed on 21 March 2002, and the Resolution of the Management Committee of Gazprom passed on 28 September 2001.

4. No consents, approvals, authorisations or orders of any regulatory authorities are required by the Bank under the laws of the Federal Republic of Germany for the maintenance of the Loan or for the issue of the Notes.

5. There has been no significant change in the financial or trading position or prospects of Gazprom or the Group since 31 December 2000 and no material adverse change in the financial or trading position or prospects of Gazprom or of the Group since 31 December 2000.

6. Except as disclosed in this Offering Circular, neither Gazprom nor any of its 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 Gazprom 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 and the latest interim consolidated unaudited accounts of Gazprom may be obtained, and copies of the Trust Deed in respect of the Notes (including the forms of the Global Note and definitive Notes), the Agency Agreement and the Loan Agreement will be available for inspection, at the specified offices of the Trustee and the Paying Agent in Luxembourg during normal business hours, so long as any of the Notes are outstanding.

Gazprom publishes interim consolidated unaudited financial statements, prepared in accordance with IAS for the 6 month period ended 30 June and for the 9 month period ended 30 September in each year. Gazprom does not publish non-consolidated annual or interim financial statements, prepared in accordance with IAS.

APPENDIX A — OVERVIEW OF THE RUSSIAN FEDERATION

THE RUSSIAN FEDERATION

The following information has been extracted from publicly available sources. It has not been independently verified by Gazprom. Neither Gazprom nor the Managers accept any responsibility for the accuracy or completeness of this information.

General

The Russian Federation, or Russia, is a sovereign and democratic federal republic, consisting of 89 sub-federal political units (the "Federation Subjects"), and is constituted as a federation of republics, territories, regions, cities of federal importance and autonomous regions. It is the largest state to emerge from the former Soviet Union, covering an area of approximately 17.1 million square kilometres. Russia covers one-tenth of the world's land surface, making it the largest country in the world, almost twice the size of the United States.

Of the population of approximately 145 million, approximately 82% is ethnic Russian and a high percentage (approximately 73%) live in cities and towns. The two largest cities are Moscow, with approximately 8.55 million inhabitants, and St. Petersburg, with approximately 4.7 million inhabitants.

Russia is a leading world producer of natural resources. The oil and gas industry plays an important role in the domestic economy. There are also substantial mineral deposits including iron, nickel, copper, diamonds and gold, as well as timber.

International Relations

Russia is a member of the United Nations (and a permanent member of the Security Council), the IMF, the World Bank, the International Finance Corporation and the European Bank for Reconstruction and Development. Russia succeeded to the former Soviet Union's "observer status" to the General Agreement on Tariffs and Trade (currently, the World Trade Organisation) which was granted in May 1990 and in June 1993 made an official announcement of its intention to join the General Agreement on Tariffs and Trade. Discussions regarding Russia's admission to the World Trade Organisation were held between 1995 and 1998 and the next round of negotiations is scheduled for later this year. Russia has also been awarded Most Favoured Nation status by several members of the Organisation for Economic Co-operation and Development ("OECD"). Russia has been granted observer status in a number of OECD committees and formally applied for membership in May 1996.

Political Structure and Recent Political Developments

Federal Structure

In 1990, Russia declared its sovereignty (though not its independence from the Soviet Union). In December 1991 Russia, Belarus and Ukraine joined together to dissolve the Soviet Union and form the Commonwealth of Independent States (the "CIS"). The CIS was subsequently joined by another 9 former Soviet republics. Members of the CIS have entered into a series of political and economic agreements among themselves.

The Federation Treaty of 31 March 1992, signed by the majority of the Federation Subjects, initially gave to each a measure of control over budgetary and external policy as well as over the natural resources of their territories, and the Constitution of Russia (the "Constitution") and individual treaties between the Federation and some of the Federation Subjects subsequently confirmed and refined the terms of the division of authority between the Federation and its subjects.

In general, disputes between the Federal authorities and Federation Subjects have been resolved peacefully through a political process. The military confrontation in the Chechen Republic has been the exception. There has been military confrontation in the Chechen Republic between December 1994 and August 1996 (followed by a peace treaty in May 1997) and then again from August 1999 to date, with the fighting now reduced to sporadic outbreaks. In January 2001 President Putin announced plans for a significant reduction in troop numbers and an eventual end to anti-terrorist operations. A local police force is being formed to gradually take over the maintenance of order from the Russian military, and almost 15 billion Roubles (over U.S.$500 million) has been promised in aid for reconstruction of Chechnya. However, the situation is not stable and there have been no official talks between the federal authorities and rebel leaders. It is expected that the future of the Chechen Republic will only be decided after the completion of operations by the Russian interior and military troops.

Constitution

The Constitution provides for a tripartite governmental structure in which the power of the State is divided between the executive, legislative and judicial branches, each independent of the others. The Constitution also establishes a federal system, allocating responsibilities between federal and sub-federal authorities and setting out the principles of local government.

Executive, Legislative and Judicial Branches

The Executive branch consists of the President and the Government of Russia.

The President of Russia has broad powers. The President is Head of State and Supreme Commander of the Armed Forces, with authority to declare states of military emergency and other states of emergency, subject to approval by the Federation Council and has responsibility for foreign policy and national defence. The President has the power to issue decrees and orders having the force of law (although these may not contradict the Constitution or federal legislation), to suspend acts of sub-federal executive authorities and to call a national referendum on matters of special importance. The President also has the power to veto bills passed by the Federal Assembly and, under certain circumstances, to dissolve the State Duma. The President also enjoys significant powers of appointment, including the power to appoint the Prime Minister (with the consent of the Duma) and other members of the Government (who are nominated by the Prime Minister). The President may also dismiss deputy prime ministers and federal ministers at any time. In addition, the President nominates candidates for Governor of the Central Bank (for appointment by the Duma) and the Prosecutor General (for appointment by the Federation Council) and also nominates judges for the Constitutional Court, the Supreme Court and the Supreme Arbitration Court (for appointment by the Federation Council).

The President is elected in a national election for a term of four years. The Constitution provides for the early termination of the President's term of office in the event of his death, resignation or impeachment, or if he is persistently unable to exercise his powers for reasons of health, in which case the Prime Minister fulfils the responsibilites of the President until a new President is elected. New presidential elections must be held within three months of any such early termination.

The Government of Russia comprises the Prime Minister, deputy prime ministers and federal ministers, all of whom are appointed by the President as described above. The Government is automatically dissolved after each presidential election, in order to permit the President to form a new Government. The Government is responsible for implementing federal laws, presidential decrees and international agreements. In particular, the Government is responsible for preparing and implementing the federal budget, establishing a unified financial, credit and monetary policy, carrying out social policy, preserving public order and defending the rights and freedoms of citizens.

The Legislative branch is the Federal Assembly, which consists of a lower chamber, the State Duma, and an upper chamber, the Federation Council.

The State Duma consists of 450 deputies, elected by a mixed system of majority vote and proportional representation. Half of the deputies are elected by majority vote in individual electoral districts. The other half are chosen from "party lists" on the basis of a nationwide election, with seats being allocated in proportion to the number of votes received by the party. Generally, only parties receiving more than 5% of the votes qualify for these "party list" seats. "Party list" deputies are free to change their party affiliations during their terms in office without the need for a new election. The State Duma sits for four years and no person may simultaneously serve as a State Duma deputy and hold a position in the Government.

The Federation Council represents Russia's 89 Federation Subjects. Each Federation Subject has two representatives on the Federation Council, one representing its legislative body and the other representing its executive branch.

The Judicial branch is represented by the Constitutional Court, the Supreme Court and the Supreme Arbitration Court as well as lower courts of general jurisdiction and arbitration courts.

Political Parties and Elections

Presidential elections were most recently held on 26 March 2000. The elections were scheduled to take place in the summer of 2000 but the premature resignation of President Yeltsin on 31 December 1999 brought these elections forward to March. At the time of Yeltsin's resignation, Vladimir Putin was the Prime Minister and, therefore, was elevated to the post of acting President.

Putin was successful in the first round of voting for the Presidential elections and secured over 52% of the votes cast with a turnout of 68.74% (more than 50% of the votes cast is required in order to be elected). His nearest challenger was the Communist candidate Gennady Zyuganov, who received almost 30% of votes.

The Government was appointed between May and July 2000. It has embarked on a course of significant reforms comparable to those in early 1992 aimed at strengthening the unity of the State and tightening federal control over the Federation Subjects.

In May 2000 President Putin reformed the structure of Presidential representatives in the regions. The Federation Subjects were divided into seven "federal areas" and authorised representatives with broad powers were appointed by the President to each federal area. The rights of the authorised representatives of the President include the right to participate in all activities of representative bodies of the Federation Subjects, to control the implementation of Presidential decrees and orders and federal economic programmes, and to control the use of federal property and federal funds by the Federation Subjects. The authorised representatives of the President in the Federation Subjects are financed by the Administration of the President.

The Duma elections were held on 19 December 1999 with the following results: — the Communist party led by Gennady Zyuganov won 24.3% of the votes cast; the Unity party led by Sergei Shoigou, the Minister of Emergency Situations 23.2%; the Fatherland-All Russia party led by former prime minister Yevgeny Primakov, Moscow Mayor Yuri Luzhkov and St Petersburg Mayor Vladimir Yakovlev 13.1%; the Union of Right Forces led by former prime minister Sergei Kiriyenko 8.6%; the Yabloko party led by Grigory Yavlinsky 5.9% and the "Zhirinovsky bloc" led by Vladimir Zhirinovsky 6.4%. Other parties received the remaining 18.5%.

As a result of the distribution of seats among political parties and winners in majority vote constituencies, the communists and their allies lost control over the Duma, which now has a broadly pro-Presidential majority.

Economic Conditions and Recent Economic Developments

Following the dissolution of the Soviet Union, particularly during 1991 and 1992, Russia experienced an economic crisis, evidenced by a decline in industrial production and GDP, significant price increases, a decline in the average standard of living and an increase in foreign debt. In response, the Government instituted a series of measures designed to achieve financial stabilisation and price liberalisation and to create an impetus for a transition to a market economy. The Government has freed most wholesale and retail prices, reduced defence allocations, cut state subsidies, introduced a substantial value-added tax, removed most non-tariff restrictions on foreign trade and launched a broad privatisation effort.

Russia's financial stabilisation programme came under severe pressure in the second half of 1997 and the first half of 1998, when the repercussions of the Asian currency and financial crises and sharp falls in world prices for oil and other commodities adversely affected the Government's ability to continue to finance its budget deficits and to maintain the value of the Rouble against the U.S. dollar. On 17 August 1998, the Government and the Central Bank announced a three-part programme intended to address these pressures. First, the Rouble trading corridor was revised from 5.25-7.15 Roubles for one U.S. dollar to 6.00-9.5 roubles for one U.S. dollar. This corridor was subsequently abandoned. Second, domestic GKO/OFZ bonds issued prior to 17 August 1998 and maturing before 31 December 1999 were to be restructured into new longer-term instruments and trading of these instruments was suspended pending the restructuring. Finally, for a period of 90 days Russian private sector residents were restricted from conducting certain foreign exchange operations of a capital nature, including payments of foreign currency under forward contracts and repurchase agreements and principal payments on long-term credits.

The events of 17 August led to:

- a severe devaluation of the Rouble;
- a sharp increase in the rate of inflation;
- the near collapse of the country's banking system;
- significant defaults by Russian public and private borrowers on their foreign currency obligations;
- dramatic declines in the prices of Russian debt and equity securities (including Russia eurobonds); and
- an inability of Russian borrowers to raise funds internationally.

The situation stabilised rapidly, however, and 1999-2001 witnessed several positive developments. These included:

- a slow-down in the decline, and then a stabilisation, in the value of the Rouble against the U.S. dollar (and appreciation of the value of the Rouble against the U.S. dollar in real terms);
- a decline in consumer price inflation;
- an increase in real industrial output, resulting in part from the devaluation of the Rouble;
- an improved balance of trade, resulting in part from the devaluation of the Rouble and a significant increase in oil prices;
- improved tax collection, resulting in a significant primary fiscal surplus;
- increasing prices for Russian debt and equity securities;
- a decrease in the share of barter transactions, both in inter-enterprise transactions and in the execution of regional budgets; and
- the restructuring of a significant portion of Russia's Rouble-denominated domestic indebtedness and the reduction and restructuring of its London Club indebtedness.

President Putin's government has announced plans for substantial economic reforms (including the tax reform, the pension reform, the housing and utilities reform) and has begun the process of implementing some of those reforms.

Privatisation

Russia commenced its privatisation programme in early 1992. About 15,000 medium- and large-scale enterprises employing more than 70% of the industrial workforce had been privatised through the mass voucher privatisation programme by mid-1994. In a relatively short period of time, the companies in which the Government had had less than a majority equity interest came to represent over 50% of both GDP and employment.

The first stage of the Russian privatisation process, the so-called voucher privatisation, was completed in the summer of 1994. The second (post-voucher) phase of the privatisation process started in late July 1994, consisting of cash sales to domestic and foreign strategic investors with the primary objective of transferring control over the privatised companies to private management and ownership. The transfer of assets from state to private control continued in 1995 through a loans for shares programme, cash auctions and investment tenders. As at 31 December 2000, there were more than 900 joint stock companies which were 25 to 50% state owned and 371 joint stock companies which were more than 50% state owned.

In July 1997, a new privatisation law came into effect. The new law provides for several methods to privatise state-owned enterprises including cash auctions, commercial tenders, sales of shares to enterprise employees, buy-outs of state property under lease, contributions of state-owned assets to the charter capital of other business entities, the transformation of State and municipal entities into open joint stock companies and the issuance of state debt securities convertible into the equity of joint stock companies with subsequent sales of these equity securities to the holders of State debt.

The August 1998 financial crisis resulted in the suspension of several planned privatisation tenders. The Government has announced its intent to return to some of its privatisation plans.

Gross Domestic Product

The following table sets forth certain information regarding Russia's nominal GDP for the years 1996 to 2001:

	1996	1997	1998	1999	2000	2001(2)
Nominal GDP (RUR billions)	2,145.7	2,478.6	2,741.1	4,757.2	7,063.4	6,545.0(3)
Nominal GDP per capita (RUR)	14,523.2	16,826.4	18,659.0	32,515.0	48,527.0	45.419.8
Consumer Price Index(1) (%)	147.8	114.7	127.8	185.7	120.8	121.8
Total population, millions (end of period)	147.1	146.7	146.3	145.6	144.8	144.1

Note:

(1) Average on the annual basis (Source: Central Bank website, 22 January 2002).

(2) The figures for 2001 are given for the first eleven months avaraged on the annual basis.

(3) The figure is given for the period from January to September 2001, averaged on the annual basis.

Source: Goskomstat's Russian Annual Statistics (2001 Edition), Goskomstat's website, 22 January 2002.

Employment

Employment has declined in Russia since reforms were initiated. The level of unemployment increased in 1998 due to the Russian financial crisis, and the labour market still remains relatively depressed. According to the Central Bank of Russia figures (based on the methodology of the International Labour Organisation), the total number of unemployed in October 2001 was 6.2 million (8.7% of the labour force), compared to 7.0 million (9.8% of the labour force), at the end of 2000 and 8.9 million (12.2% of the labour force) at the end of 1999.

Source: Central Bank website, 22 January 2002.

Balance of Payments

The following table sets forth Russia's consolidated balance of payments for the years 1996 to 2001:

	Consolidated Balance of Payments					
	1996	1997	1998	1999	2000	9 months of 2001
			(U.S.$ millions)			
Current account	11,753	2,060	687	24,731	46,291	28,557
Goods and non-factor services	17,115	11,107	12,813	31,845	52,958	32,547
Trade balance	22,471	17,025	16,869	36,129	60,703	40,379
Non-factor services	(5,356)	(5,918)	(4,056)	(4,284)	(7,745)	(7,832)
Income	(5,434)	(8,692)	(11,790)	(7,716)	(6,736)	(3,965)
Current transfers	72	(356)	(337)	601	69	(25)
Capital and financial account	(6,860)	2,791	8,397	(17,695)	(37,050)	(22,371)
Capital account	(463)	(797)	(382)	(328)	10,955	(10,289)
Financial account	(6,397)	3,588	8,779	(17,367)	(48,005)	(12,081)
Direct investments	1,656	1,681	1,492	1,101	(494)	(403)
Portfolio investments, net	4,410	45,775	8,618	(946)	(10,303)	(267)
Other investments	(13,821)	(41,912)	(6,585)	(15,569)	(21,215)	(1,939)
Reserve assets	2,841	(1,936)	5,305	(1,778)	(16,010)	(9,619)
Adjustments of reserve assets(1)	(1,484)	(20)	(50)	(176)	17	147
Errors and omissions, net	(4,892)	(4,851)	(9,084)	(7,036)	(9,241)	(6,187)

Note:

(1) Adjustments of the reserve assets were introduced in order to reconcile the data in the payment balance and international investment position of Russia formed in accordance with the IMF guidelines with the national official statistical data on international reserves.

Certain data presented in this table differs from the previously published data due to revisions made by the Central Bank of Russia.

Source: Central Bank website. 22 January 2002.

Official International Reserves

The following table sets forth information with respect to official international reserves as at 1 January for the years 1997 to 2002:

	Official international reserves					
	1 January 1997	1 January 1998(1)	1 January 1999(2)	1 January 2000	1 January 2001	1 January 2002
			(U.S.$ millions)			
Gold and currency reserves	15,324	17,784	12,223	12,456	27,972	36,622
Currency reserves	11,276	12,895	7,801	8,457	24,264	32,542
Foreign currency	11,271	12,771	7,800	8,455	24,263	32,538
SDRs	5	122	0	1	1	3
Reserve position on IMF	1	1	1	1	1	1
Gold(3)	4,047	4,889	4,422	3,998	3,708	4,080

Notes:

(1) From 1 August 1998 deposited gold is included in the international reserves figures.

(2) From 1 September 1999 the amount of reserves excludes foreign currency balances in correspondent accounts of resident banks with the Central Bank of Russia, except for the funds transferred to Vnesheconombank for the purposes of servicing state external debt.

(3) Valuing gold at U.S.$300 per fine troy ounce.

Source: Central Bank's website (22 January 2002).

Monetary policy

The decrease of the budget deficit between 1992 and 1997 with its expected elimination in 2001, and the increased access of the Government to financing from sources other than the Central Bank, have reduced the pace of monetary expansion. Prior to the 1998 financial crisis, slower monetary growth and increased exchange rate stability have helped the Central Bank to reduce inflation from over 2000% in 1992 to 11% in December 1997. In 1998, however, inflation rose sharply again. After the crisis, the Government changed its policy towards the Rouble and proclaimed a debt moratorium and a mandatory restructuring of a significant share of domestic Rouble debt. Consumer price inflation was reduced to 20.2% as at the end of 2000, from a level of 36.5% for the year 1999.

The Central Bank introduced a currency intervention band in July 1995. Another two "half-year" currency bands followed at the end of 1995 and in mid-1996. As confidence in the continuity of the exchange rate policy grew, the Central Bank introduced a full-year band for 1997. In November 1997, exchange rate policy was adjusted further, to allow the authorities more flexibility in accommodating shifts in short-term capital flows. The new (flat) trading band was announced for the three years from 1998 to 2000. This was supposed to help sustain the decline in inflation and domestic interest rates. However, in 1998 the Government dropped the currency trading band and allowed the Rouble to float freely. By the end of 1999, the Rouble had stabilised at around 25 Roubles to the U.S. dollar. Since then, the Central Bank has conducted a tight monetary policy through a system of barriers to limit the flow of currency out of Russia and direct currency interventions helping to reduce inflation and keep the Rouble under control.

The Rouble was redenominated, 1,000-fold, effective as of 1 January 1998. The old bills were in circulation until 1999 and will continue to be accepted by the Central Bank until 2002.

The Rouble is fully convertible for current account transactions. In June 1996, the Russian Government committed itself to compliance with the obligations of Article VIII of the IMF Charter.

External Debt

As at 1 January 2001 the state external debt of the Russian Federation amounted to U.S.$144.5 billion (including indebtedness of the former USSR accepted by Russia). A significant proportion of that debt (U.S.$48.6 billion) is owed to the Paris Club of sovereign creditors. The Government has been making efforts to restructure this Paris Club debt and reschedule payments. However, these efforts have not so far been successful. If the Paris Club debt is not restructured, Russia will face substantial foreign debt payments in 2003.

Source of figures: Ministry of Finance website, 22 January 2002.

Social Conditions

The Russian standard of living declined with the beginning of economic reforms amid the country's severe economic problems. This decline has primarily affected the elderly and other segments of the population that are dependent on Government benefits. While reported real wages dropped sharply as a result of price liberalisation, Russian consumers have benefited from the wider range and improved quality of products available to them. Today, imported and domestic consumer products are available, although many goods are often beyond the means of most Russians and the market share of imported goods has been decreasing.

Legal Environment

Russian law has undergone radical changes in recent years. Whole bodies of law unknown in the Soviet era have been adopted, covering a wide range of areas including corporate, securities, anti-trust, privatisation, property, banking and bankruptcy law. The adoption of the first, second and third parts of the new Civil Code, the Securities Market Law and the Joint Stock Companies Law are further important steps in establishing a comprehensive legal framework. At the same time, confusion and uncertainty continue to exist with respect to the state of law in Russia, not least because the pace of its development often results in ambiguities and inconsistencies.

Much business-related legislation remains to be put in place. The absence of comprehensive business laws and regulations presents particularly difficult problems for businesses operating in Russia. Business-related legislation is also susceptible to revision in reaction to political influences and the pressure on the Government to generate revenue or to conserve foreign currency. In addition, a significant amount of Russian legislation has been adopted based on a more or less explicit understanding that it would serve as a general framework, with more detailed issues to be subsequently clarified by amendment or administrative regulation. In many cases, this clarification is yet to occur.

Regulations are interpreted and applied with little consistency and the decisions of one Government official may be overruled or contested by another. Moreover, many of the new Russian laws have never been interpreted by courts or administrative bodies. Both the Soviet experience and recent Russian practice suggest that the enforcement of legal rights in Russia will continue to be subject to greater discretion and political influence than is usual for most Western jurisdictions.

Exchange Controls and Repatriation

Russian currency exchange legislation limits the exchangeability of Roubles for foreign currency and the use of foreign currency in Russia. Russian currency legislation currently permits, and Russian foreign investment legislation currently guarantees, the right of foreign investors to convert Rouble income received on investments in Russia (including dividends, profits and interest) and to transfer it abroad. However, the actual repatriation of proceeds from the sale of certain investments may be postponed for as long as 365 days.

Foreign currency may be freely exchanged for Roubles in Russia, but the exchange of Roubles for foreign currency in Russia is restricted and Roubles may not be exported or exchanged outside Russia. Non-residents may freely convert foreign currency into Roubles, but may only do so through Rouble accounts which are subject to strict regulations.

The currency exchange rules govern transactions in foreign currencies and currency valuables (including foreign currency-denominated securities) between Russian residents (including citizens, permanent residents and legal entities established under Russian law) and foreign currency and Rouble transactions between residents and non-residents. Russian currency legislation distinguishes between "current" foreign currency transactions and foreign currency transactions involving a "movement of capital".

"Current" foreign currency transactions generally may be freely carried out between residents and between residents and non-residents. "Movement of capital" transactions in foreign currency, generally require a licence from the Central Bank subject to exemptions enacted by the Central Bank. The prevailing view is that the licence is only required for Russian residents involved in such "movement of capital" transactions. Cash transactions in foreign currency are generally prohibited within Russia.

Following the financial crisis of 1998, additional regulations on foreign currency exchange were enacted. For example, the mandatory exchange of 75% of export revenues of Russian companies was required to be effected through the domestic foreign currency market. This requirement has been assisting the Central Bank in increasing its foreign currency reserves. The mandatory exchange requirement has been recently reduced to 50% of export revenues.

In 2001, certain steps were taken to remove some of the more onerous currency control requirements. In particular, Russian companies can now receive long term loans from foreign lenders without a Central Bank licence provided that certain conditions are met.

Taxation and Duties

The current Russian system of taxation has been characterised by rapid and unpredictable changes. The Government has an acute need for revenues because of the large deficit in public finance at all levels. Thus, the nature and amount of taxes applicable to a business's activities could ultimately turn out to be different from what is expected. Widespread non-compliance with tax laws and inconsistent enforcement by tax inspectorates contribute to the system's shortcomings. While taxation of non-income operations has been significantly reduced, businesses are still required to pay significant taxes even if they realise no profits.

The first part and certain chapters of the second part of the new Tax Code became effective in 1999 and 2001-2002 respectively. The main objectives of the Tax Code are to reduce the total number of taxes (from about 200 existing in 1999), improve the stability, transparency and fairness of the system by eliminating many tax exemptions, and to reduce the overall tax burden on the Russian economy. The Ministry of Finance and the Tax Ministry continue to work on the tax system by radically reducing the number of laws and harmonising Russian legislation with that of developed countries.

Entities carrying on commercial activity in Russia must be registered with the tax inspectorate in each location in which they operate, and must submit an annual tax declaration in addition to certain quarterly and monthly reporting requirements. There is a single profits tax system, but the rates are split between payments to the federal, regional and local governments. At the present time, the profits tax is imposed at a federal rate of 7.5%, a regional rate of between 10.5% and 14.5% and a local rate of 2%. This results in an overall rate ranging from 20% to 24%.

Social tax is payable by employers and is imposed on the employee's wage cost at a maximum rate of 35.6%. A regressive rate is applied to higher wage costs, with the minimum rate as low as 2%.

Value added tax, at the rate of 20% ("VAT"), is imposed on the customs value of imports of goods, and on supplies or deemed supplies of goods, works and services in the Russian territory. Certain goods are subject to VAT at a lower 10% rate. Exports, educational, medical and certain other services are generally exempt from VAT.

In addition to the foregoing taxes and duties, each subject of Russia and each local authority may impose certain regional and local taxes within the limits established by Federal legislation. The taxes include retail sales tax (up to 5% of retail revenues) and corporate property tax (up to 2% of the property's value annually).

Foreign entities are subject to a withholding tax at source on Russian source income that is not attributable to a permanent establishment. The withholding tax is imposed at the following basic rates: 15% for dividends and other income from participation in Russian enterprises, and 20% for royalties, interest, management fees and most other income. This withholding tax may be reduced pursuant to a double taxation treaty in effect between Russia and other countries for foreign legal entities and individuals who are resident in such countries. This reduction in withholding tax pursuant to such treaties may be obtained either via a refund (as long as such refund claim is made within three years from the end of the year in which the tax was paid) or by direct application of the double taxation treaty by the payer. In either case, the foreign legal entity or individual would be required to obtain official certification from its home jurisdiction confirming its residence (for the purposes of the treaty in the country which is a party to a double taxation treaty with Russia).

Personal income tax for tax residents is levied at a single flat rate of 13% which is effective as of 1 January 2001 and applicable to most types of income.

APPENDIX B — PART I — OVERVIEW OF THE RUSSIAN GAS INDUSTRY AND ITS REGULATION

The information set forth in this section is based on publicly available information

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.

Between 1990 and 1999, the Government's policies on natural gas industry structure and prices resulted in the demand for natural gas and natural gas production levels remaining relatively stable in comparison to the production of other energy sources over the same period, such as oil and coal. Total natural gas production only declined by 7.6%, whereas the production of oil and coal declined by 41.7% and 36.7% respectively. Moreover there has been a continuous substitution during this period of the use of oil and coal by natural gas, primarily because domestic natural gas prices have been kept at a low level.

Since the dissolution of the Soviet Union, the oil and coal industries have been restructured into several regional enterprises, but the structure of the UGSS, which is the basis for natural gas production, transportation, storage and supplies in the Russian Federation, has been preserved.

CLASSIFICATION OF RESERVES

Russian methods for calculating and classifying reserves differ from generally accepted practices in the United States and other countries. Reserves which are calculated using different methods cannot be accurately reconciled.

The following is a summary of an extract taken from a classification document concerning reserves and potential and forecasted oil and natural gas resources, which was approved by the Order of the Ministry of Natural Resources No. 126 dated 7 February 2001.

Categories of reserves and potential and forecasted oil and natural gas resources.

Natural Gas, gas condensate and oil reserves and their components, which have industrial value, are subdivided depending on the degree to which they subsist into explored reserves (represented by the categories A, B, and C_1), and into preliminary estimated reserves (represented by the category C_2). Oil and natural gas resources are subdivided depending on the degree to which they subsist into potential resources (represented by the category C_3), and into forecasted resources (represented by the categories D_1 and D_2).

Category A—Deposit reserves (or a part of a deposit), which have been analysed in sufficient detail to comprehensively define the type, shape and size of the deposit; the level of the oil and natural gas saturation; the reservoir type; the nature of changes in the reservoir characteristics; the oil and natural gas saturation of the productive strata of the deposit; the content and characteristics of the oil, natural gas and condensate; as well as major features of the deposit which determine the conditions of its development (mode of operations, well productivity, strata pressure, the oil, natural gas and condensate balance, hydro- and piezoconductivity and other features).

Category A reserves are calculated on the part of the deposit drilled in accordance with an approved development project for the oil or natural gas field.

Category B—Deposit reserves (or a part of a deposit), the oil and natural gas content of which is determined on the basis of commercial flows of oil or natural gas from wells at various hypsometic marks.

The type, shape and size of the deposit; the level of the oil and natural gas saturation; the reservoir type; the nature of changes in the characteristics of the reserivor; the oil and natural gas saturation of the productive strata; the content and characteristics of the oil, natural gas and condensate under stratum, standard conditions and other parameters; and also other major features of the deposit which define the conditions for its development, are all analysed so as to enable a deposit development project to be drawn up.

Category B reserves are calculated on the part of a deposit drilled in accordance with either an approved technological development scheme for an oil field or a trial industrial development project for a natural gas field.

Category C_1 deposit reserves (or a part of a deposit), the oil and natural gas content of which is determined on the basis of commercial flows of oil or natural gas from wells (a number of wells are probed by exploration drilling) and on the basis of positive results from geological and geophysical analyses of untested wells. The type, shape and size of the deposit, and the conditions for bedding the oil and natural gas bearing reservoir are determined by the results of drilling exploratory and operational wells and are verified by approved methods for a given region and by geological and geophysical analytical methods.

The lithological content, the reservoir type and characteristics, the oil and natural gas saturation, the oil displacement rate, and the level of the oil and natural gas saturation of the productive strata, are determined through an analysis of the core and materials from geophysical well testing. The content and characteristics of the oil, natural gas and condensate under stratum and standard conditions are analysed according to test data from the wells. The commercial value of the oil "edge" is determined by the oil and natural gas deposit. Well productivity, hydroconductivity and piezoconductivity of the stratum, stratum pressure, temperature, and the oil, natural gas and condensate balance are analysed through testing and studies of the wells. The hydrogeological and geocryological conditions are determined by the results of well drilling and through comparison with neighbouring explored fields.

Category C_1 reserves are calculated on results of geological exploratory work and production drilling. They are analysed in order to enable preliminary data to be drawn up for a technological development plan for an oil field, or for a project for the trial industrial development of a natural gas field.

Category C_2 preliminary estimated reserves — reserves of a deposit (part of a deposit), which availability is based on the results of geological and geophysical research in the unexplored part of the deposit adjoining plots containing reserves of higher categories and in the untested deposits of the explored fields. The shape and the size of the deposit. Conditions of bedding, level and reservoir types of the layers, content and characteristics of oil, gas and condensate are determined in general terms based on the results of geological and geophysical exploration subject to information on a better explored part of the deposit or by analogy with the explored fields.

Category C_2 reserves are used to determine perspectives of the field and planning of geological and exploration works and geological and production exploration upon the transfer of wells to the higher layers. Category C_2 reserves are partially used for the purposes of compiling project documentation for the development of the deposits.

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 current regulatory requirements in the natural gas industry.

The regulation of legal and economic relations in the Russian natural gas industry is mainly based on the Constitution of the Russian Federation, the Civil Code of the Russian Federation, the Law of the Russian Federation "On Subsoil Resources" No. 2395-1 dated 21 February 1992 as amended (the "Subsoil Resources Law"), the Federal Law "On Natural Monopolies" No. 147-FZ dated 17 August 1995 (the "Natural Monopoly Law"), the Federal Law "On the Continental Shelf of the Russian Federation" No. 187-FZ dated 30 November 1995 and the Gas Supply Law. The most important recent piece of legislation is the Gas Supply Law which creates a regulatory framework for natural gas exploration, production, transportation, storage and supplies.

Under the Gas Supply Law, the federal authorities have substantial jurisdiction over natural gas supplies, including, *inter alia*: the development and implementation of State 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; and standardisation and certification. The aim of this is to achieve consistency in the regulation of natural gas supply throughout Russia.

The Government's role is to approve: a) the various procedures for the approval of projected natural gas production levels and the sales balance in Russia; b) the Federal Programme of Gasification(1) in Russia; c) the principles for setting natural gas prices and natural gas transportation tariffs; d) the regulations for natural gas deliveries; e) the procedure for providing independent organisations with access to the natural gas transportation and distribution networks; and f) the categories of customers to whom natural gas deliveries cannot be restricted or suspended.

The Ministry of Energy of the Russian Federation is specifically responsible, in relation to the natural gas industry, for the practical implementation of State policy and the co-ordination of the activities of the federal executive bodies.

The Ministry of Natural Resources of the Russian Federation is responsible for regulating the exploration, use and protection of natural resources, including *inter alia*, licensing of the production and exploration of subsoil resources.

The federal legislation provides the regional and local authorities with a degree of autonomy in the exercise of their rights over the use of land and the natural resources. It also stipulates that the use of subsoil is under the joint jurisdiction of the federal and regional authorities.

Within their jurisdictions, the regional governing authorities have substantial power over the issues which arise on projects related to the exploration of oil and natural gas fields, pipelines, oil refineries and other enterprises. Such authorities, in co-operation with the regional bodies of the Ministry of Natural Resources, grant licences for the exploration and production of subsoil resources (except for the licences granted for subsoil plots located in Russia's internal waters, territorial sea or on its continental shelf). In addition, such authorities usually control the transfer of rights for the use of land, and regulation of issues relating to the environment, employees' health and safety, social security, and certain financial matters. 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 for the use of subsoil in order to study, explore and produce natural resources in Russia. During the initial stages (1992-1995), licences were granted to the mining organisations without a tender or an auction, for fields where exploration and production was already in process. For new fields and subsoil plots, however, licences were awarded through auctions or tenders, conducted by the governing body of the relevant subject of the Russian Federation and the Ministry of Natural Resources or its regional authority. The most important criterion for determining the preferred bidder of the auction is the lump sum amount ("bonus") the bidder is prepared to pay for the right to use the subsoil. Not only should the preferred bidder submit the most technically and economically competent proposal, but its proposal must also address environmental, safety and national security issues.

The Subsoil Law also allows for licences to be issued without a tender procedure, for geological exploration of a subsoil plot subject to discovery of mineral resources fields by the subsoil user at its own account and upon enactment of a production sharing agreement (PSA).

The licence for subsoil use has a number of integral components one of which is the licensing agreement, which, *inter alia,* identifies the terms and conditions for the use of the subsoil, the rights and obligations of the licensee and the manager of the subsoil plot, the level of payments, etc. There are usually three signatories to any licensing agreement: the regional authority of the Russian region where the field is located, the Ministry of Natural Resources or its relevant regional authority (committee) and the licensee.

(1) The Presidential Decree No. 742 dated 20 May 1996 adopted a Federal Programme of Gasification for 1996-2000. In summer 2000, the Government made a decision to reduce the budgeted costs for special-purpose federal programmes. The Ministry of Energy is in the process of preparing a new draft of the Gasification Programme.

There are three types of licences applicable to the study, exploration and production of natural resources: for geological exploration of the subsoil plot without production right, for exploration and production of natural resources and combined licences for study, exploration, evaluation and further production of natural resources. Under the Subsoil Resources Law, licences are granted for a fixed or indefinite term which is stipulated in the license: for the exploration licences (up to five years) and for the exploration and production licences generally (either for a period for which the field is operational[(2)] or for a short term of up to one year). The Subsoil Resources Law allows the subsoil user to request an extension of the existing licence in order to complete either the exploration 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 licence. Indefinite term licences are also provided for the construction and operation of facilities used for the burial of waste, and for underground facilities, which are either unrelated to mining production or used for the storage of natural gas and liquefied hydrocarbons.

Licences granted in accordance with the Subsoil Resources Law cannot be sold or transferred to another entity except in limited circumstances (set out in the Subsoil Law), such as to a spin off company or a 50 per cent or a majority owned subsidiary of the licensee. A licence cannot be held by more than one legal entity, unless the right to use the subsoil is granted to a consortium, in which case the licence is issued in the name of only one member of the consortium and other members are listed in the licence.

Under a licence agreement, the licensee makes a number of commitments, for example: 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 licence 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 licence can be revoked in the event of repeated or significant breaches of the licence conditions and laws, or the right to subsoil use can be terminated if the licence remains unused for a substantial period of time. The right to use the subsoil resources may also be suspended, restricted, or terminated early by the licensing authorities either on 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 on the emergence of force majeure events such as wars or natural disasters.

Although most of the conditions set out in a licence and its integral components are based on mandatory rules contained in Russian law, there are a number of provisions in a licensing agreement which may be amended by further agreement between the licensing authorities and a licensee, provided that the correct procedures are observed.

An exploration and production licence holder is subject to a quarterly tax for production of mineral resources, which is calculated as a certain percentage of the value of the resources it extracts. Current legal acts establish the 16.5% tax rate for the production of natural gas and gas condensate.

A holder of a licence for geological exploration with the purpose of exploration and evaluation of hydrocarbons has to make regular payments for the allotment use based on the total area of such allotment (in square meters) and a specific rate ranging from RUR 120 to RUR 360 per sq.m.

Regular payments for subsoil use are payable on a quarterly basis in accordance with the procedures established by the Government of the Russian Federation. The exact rates for calculation of payments are determined by the executive bodies of the regions of the Russian Federation.

Regular payments for subsoil use do not substitute the relevant tax obligations applicable to the licence holder in accordance with general tax legislation.

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(2) Previously production licences were restricted to a maximum term of twenty years but this restriction was abolished as of 13 January 2000 by Federal Law No. 20-FZ dated 2 January 2000 "On amendment of the Law of the Russian Federation "On Subsoil Resources"

The Unified Gas Supply System

In accordance with the Gas Supply Law, the UGSS is the basis for natural gas supplies throughout Russia. It is defined as a production complex consisting of technologically and economically integrated objects managed on a centralised basis and designated for natural 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 the reliable supply of natural gas within Russia; maintaining and developing the UGSS network; monitoring the function of UGSS facilities; ensuring the performance of international treaties and 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 and the liquidation of its owner is only permitted by Federal Law. The Gas Supply Law also regulates the ownership of shares in the company which owns the UGSS (currently Gazprom). In particular, foreign persons and companies are not permitted to own more than 20 per cent of the owner's issued share capital. Furthermore, at least 35 per cent of the owner's issued share capital must remain in the ownership of the State. 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 the 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 of 5 February 1998.

A right of priority to enter into natural gas supply agreements is given to off-takers which purchase natural gas for State and utility consumers as well as households, and to off-takers that wish to extend their existing natural gas supply agreements.

The off-takers which are financed by the federal budget are obliged to enter into State gas supply contracts with natural gas suppliers. The contracts are entered into in accordance with the supply procedure, established by Russian legislation, for products which are required for State needs.

In accordance with Government Resolution No. 858 dated 14 July 1997, Gazprom is obliged to provide independent suppliers with access to its natural gas transportation system in Russia. However, this is subject to the availability of spare capacity in the natural gas transportation system, the 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 their 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 issued a number of resolutions (e.g. Government Resolution No. 601 dated 17 June 1998 and Government Resolution No. 1 dated 5 January 1998) regulating restriction or suspension of supplies to certain customers. These consumers include, *inter alia*, medical institutions, military units, nuclear plants, communication organisations and utilities (for which the limitation or suspension of the supply of fuel and energy resources might result in threats to people's lives or severe environmental consequences).

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 of 29 December 2000 "On State Regulation of Gas Prices and Tariffs for Gas Transportation in the Territory of the Russian Federation" ("Resolution No. 1021") stipulates the main provisions relating to natural gas prices and transportation tariffs.

The Federal Energy Commission of the Russian Federation ("FEC") is the authority which regulates natural monopolies, including the establishment and regulation of natural gas prices and tariffs. In accordance with Resolution No. 1021, the FEC establishes the level of:

- wholesale natural gas prices;

- tariffs for gas transportation services through trunk pipelines within the territory of the Russian Federation;
- tariffs for gas transportation services through trunk pipelines for independent organisations;
- tariffs for gas transportation through pipelines owned by independent gas transportation organisations;
- tariffs for gas transportation through supply networks belonging to gas distribution companies; and
- payments for the supply and marketing services rendered by gas distribution companies.

Environmental Requirements

Environmental rules and standards are regulated by a number of Russian federal laws and regulations. Federal Law No. 7-FZ "On Environmental Protection" of 10 January 2002 (the "Environmental Protection Law"), is one of the principal laws regulating environmental issues. The Environmental Protection Law establishes a "pay-to-pollute" regime and is administered by the Ministry of Natural Resources and local authorities. 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 in place. The Environmental Protection Law does not stipulate precise requirements for the clean-up of pollution, although it does contain an obligation to fully compensate for all environmental losses caused by pollution. In the event of a dispute concerning losses caused by breaches of environmental laws and regulations, the court may impose clean-up obligations subject to the agreement of the parties.

Exploration licences and production licences generally require certain environmental commitments. Although such commitments may be stringent in a particular licence, the penalties for failing to comply are generally low, and the clean-up requirements are not onerous.

Regulating the Activities of Natural Monopolies

The Natural Monopoly Law defines "natural monopoly" as a condition of the commodities market where the demand for products is satisfied more effectively in the absence of competition. 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 has also established an authority (currently the FEC), which has control over:

- transactions involving the acquisition 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 should not be related to the industry of the natural monopoly entity;
- investments, the value of which exceeds 10% of the natural monopoly entity's own capital (as calculated in accordance with its latest audited balance sheet). Such investments should not be related to the industry of the natural monopoly entity;
- sales, leases or other transactions, whereby the natural monopoly entity disposes of assets used in the industry which its monopolises. 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).

The FEC can penalise a natural monopoly entity and insist that it takes certain actions in the event that it breaches the Natural Monopoly Law. Furthermore, the FEC has rights to access information on a natural monopoly entity, whether it be held by such entity itself, Government bodies or local authorities.

The following are the FEC's main methods of regulating the activities of natural monopolies:

- price regulation—setting prices and tariffs and their maximum levels;
- identifying consumers entitled to obligatory services and setting natural monopoly minimum supply levels in the event that it is impossible to meet such consumers' demands (with a view to protecting the rights and legal interests of citizens, State security, the environment and cultural values).

Gazprom, as a natural monopoly entity in natural gas transportation, must submit ongoing reports on its activities and drafts of capital investment plans to the FEC.

The FEC, as a regulatory authority, has the right:

- to decide on the implementation, amendment or suspension of methods of regulating natural monopoly activities referred to in the Natural Monopoly Law (including setting prices and tariffs);
- to instruct natural monopoly entities to cease breaching the Natural Monopoly Law; to enter into contracts with those consumers entitled to an obligatory service; to make amendments to existing contracts; and to transfer revenues from activities which contravene the Natural Monopoly Law to the federal budget;
- to fine natural monopoly entities for violations of the Natural Monopoly Law.

ENERGY CHARTER

The Energy Charter ("EC") was conceived 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 proposal for co-operation in the energy sector and creation of the EC was initially made by then Dutch Prime Minister, Mr. Lubers, at a meeting of the European Council in Dublin in June 1990. 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 states, including the countries of the European Union.

By December 1994, following three years of negotiations, the general intentions contained in the Energy Charter were put into a legally binding form—the Energy Charter Treaty (the "ECT"). As at 1 August 2001, the ECT had been signed by 52 countries, including Russia and the member states of the EU, and has been ratified by 46 countries.

The main objectives of the ECT are:

- to provide a stable energy supply;
- to provide effective production, processing, transportation, distribution and consumption of energy resources;
- to 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;
- to legally protect the interests of energy related companies and entities (from countries which are signatories to the ECT) on issues relating to investments, transit, trade, and dispute resolution procedures.

Russia signed the ECT in December 1994, but has not yet ratified it. The question of ratification has been discussed on a number of occasions in the State Duma of the Federal Council of the Russian Federation. The most recent hearing took place on 26 January 2001, where it was decided that the issue of ratification should be referred to the President of Russia, with a request that the Security Council be authorised, for the sake of the country's security, to analyse the economic and political consequences of the ratification of the ECT. 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. As at 1 March 2002 the issue of ETC's ratification has not been submitted to the next parliamentary hearings.

EUROPEAN UNION GAS DIRECTIVE

On 22 June 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 "Directive"). The Directive came into force on 10 August 1998.

The Directive establishes common rules for the transmission, distribution, supply and storage of natural gas. It lays down rules for the organisation and function of the natural gas sector (including liquefied natural gas), access to the market, the operation of transmission and distribution systems, and the criteria and procedures applicable to the granting of authorisations for the transmission, distribution, supply and storage of natural gas. It requires the Member States to open up their natural gas markets to competition on a staged basis—20% by August 2000, 28% by August 2002 and 33% by August 2008. These are minimum requirements and Member States may accelerate the rate by which they open their markets, if they so wish.

The implementation of the Directive has lead to significant structural changes in the European natural gas market. The Directive is bringing about a significant liberalisation of the European natural gas market, which goes further than the Directive's minimum requirements. Almost 80% of the total EU market has now been opened up to competition. The EU Commission is considering the possibility of introducing a further Directive which would require total liberalisation of European natural gas markets by 2004.

Russia is the largest natural gas supplier into Western Europe (followed by Algeria and Norway). Current EU projections show that in order to meet the rapidly increasing demand for natural gas and to compensate for the decline in the production of natural gas within the EU, there will be an ever 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 favourable ecological characteristics, resulting in a rising demand for natural gas.

As a result of the liberalisation 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, however the long-term "take-or-pay" contracts, under which most of Europe's natural gas is supplied by Gazprom and other traditional exporters, provide the only guarantee for secure and stable natural gas supplies, whilst at the same time balancing the interests of both exporters and importers. This is because such contracts are the main element of major natural gas export financing projects, which provide to a producer a guaranteed return on capital investments. Furthermore, these contracts guarantee reliable natural gas supplies to the purchaser for an extended period of time.

APPENDIX B — PART II — DEGOLYER & MACNAUGHTON LETTER

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Gentlemen,

DeGolyer and MacNaughton has prepared estimates of the extent and value of the proved and probable natural gas, oil, condensate, and gas liquids reserves and the extent only of the possible natural gas, oil, condensate, and gas liquids reserves of certain fields in Russia owned by OAO Gazprom (Gazprom). The 18 fields evaluated are located in western Siberia and the Volga-Ural Province of Russia and include the following:

Bovanenko	Viengapursk
Gubkinsk	West Tarkosalinsk
Kharasevai	Yamburg
Komsomolsk	Yamsovieyskoye
Medvezhye	Yen-Yakha
North Urengoi	Yeti-Purovskoye
Orenburg	Yubileyne
Urengoi	Yuzhno Russkoye
Urengoi Oil	Zapolarnoye

The estimated proved, probable, and possible gas, oil, condensate, and gas liquids reserves owned by Gazprom, as of December 31, 1999, in the fields evaluated in the Reports, expressed in billions of cubic meters (BCM) and billions of cubic feet (BCF) or millions of metric tons (MMmt) and millions of barrels (MMbbl) are summarised below:

	Gazprom Separator Gas		Gazprom Oil, Condensate, and Gas Liquids	
	English Units	Metric Units	English Units	Metric Units
	(BCF)	*(BCM)*	*(MMbbl)*	*(MMmt)*
Proved Developed	264,483.53	7,489.34	692.22	84.15
Proved Undeveloped	358,576.53	10,153.74	1,108.52	138.64
Total	623,059.80	17,643.08	1,800.74	222.79
Probable*	44,949.00	1,272.82	863.47	109.17
Possible*	46,078.77	1,304.80	1,492.98	191.76

* Probable and possible reserves have not been adjusted to account of 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 by Gazprom in the fields evaluated in the Reports, as of December 31, 1999, are estimated below, expressed in millions of Unites States dollars (MM U.S.$). Values were estimated in United States dollars (U.S.$) using the exchange rate effective December 31, 1999, which was Russian Rubles 27.00 per U.S.$1.00.

	Future Net Revenue*	Present Worth at 10 Percent*
	(MM U.S.$)	*(MM U.S.$)*
Proved Developed	48,465.71	21,547.96
Proved Undeveloped	157,732.29	18,591.90
Total	206,198.00	40,139.86
Proved plus Probable**	228,302.75	40,394.73

* In the preparation of these estimates, future income tax expenses have been taken into account at the field level and for transportation of gas for export.

** There has been no adjustment applied to the value of probable reserves to account for risk.

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

APPENDIX C — GLOSSARY OF TERMS

"Accounting Chamber"	State Finance control authority of the Russian Federation, formed by the Federation Council, the upper chamber of the Russian Parliament
"Audit Commission"	a Commission approved by a Shareholders' General Meeting which is responsible for control over Gazprom's business and financial activities
"bcm"	billion cubic meters, as measured under one atmosphere of pressure at 20°C
"Blue Stream Project"	the construction 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 eleven members and appointed pursuant to the Joint Stock Companies Law and the Charter
"Central Bank"	Central Bank of the Russian Federation
"Central and Eastern Europe"	for the purposes of this Offering Circular: Bosnia, Bulgaria, Croatia, the Czech Republic, the former Yugoslavia, Hungary, Macedonia, Poland, Romania, Slovakia, Slovenia and Yugoslavia
"Central Reserve Commission"	the Ministry of Natural Resources Central Commission for State Examination of Mineral Resources Reserves established pursuant to an Order of the Geology and Subsoil Committee of the Government No. 20 dated 23 April 1992
"Charter"	Gazprom's Charter of 31 May 1996, as amended
"COMECON"	a former economic association of communist countries founded in 1949, comprised of the Soviet Union, Bulgaria, Czechoslovakia, East Germany, Hungary, Mongolia, Poland, Romania and Cuba
"Constitution"	the constitution of the Russian Federation adopted on 12 December 1993
"Dispatch Management Centre"	Gazprom's dispatch management centre responsible for monitoring natural gas supplies through the UGSS, located in Gazprom's head office in Moscow
"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
"EU Gas Directive"	a directive adopted by the European Parliament and the Council, which came into force in August 1998, with the purpose of establishing common rules for the organisation and functioning of the European natural gas market
"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 13 August 1996 which is responsible, *inter alia*, for regulating domestic gas prices, transportation tariffs and natural resources monopoly activities
"Federal Property Fund"	State agency established under Presidential Decree No. 2173 dated 17 December 1993, which is responsible for privatisation of federal property

"FSU"	excluding Russia, the countries which comprised the former Soviet Union: Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kirgizstan, Latvia, Lithuania, Moldova, Tajikistan, Turkmenistan, the Ukraine and Uzbekistan
"Gazprom Shares"	the ordinary registered shares of Gazprom
"Gazprom Tender Committee"	a committee established within Gazprom which is responsible for holding tenders and auctions for Gazprom's various projects
"General Meeting of Shareholders"	Gazprom's highest authority in accordance with its charter, with exclusive power over various aspects of Gazprom's management
"International Energy Agency"	an energy forum with 25 member countries, which is an authoritative source for energy statistics worldwide
"kW"	kilowatts
"mcm"	thousand cubic meters, as mentioned under one atmosphere of pressure at 20° C
"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
"Management Committee Chairman"	an executive body of Gazprom responsible for issues which do not fall within the exclusive jurisdiction of the General Meeting of Shareholders, the Board of Directors or the Management Committee
"mtoe"	million metric tonnes of oil equivalent
"Novy Urengoy Gas Chemistry Complex"	a natural gas processing complex designed by Gazprom in cooperation with Salzgitter Anlagenbau and Linde, with some BASF participation, which is to be built in Novy Urengoy Region in Western Siberia
"Paris Club"	an informal grouping of 19 sovereign states which, in their role as creditors, strive to find and implement co-ordinated and sustainable solutions to the payment difficulties experienced by certain debtor countries
"OECD"	Organisation for Economic Co-operation and Development
"SACE"	Istituto per i Servizi Assicurativi del Commercio Estero (the Italian export agency)
"State Ecological Monitoring System"	a system, outlined in Government Decree No. 622 dated 23 August 2000, which monitors environmental conditions using various facilities
"State Gas Concern Gazprom"	the State controlled entity charged with the task of operating and developing the UGSS prior to Gazprom's 1993 reorganisation into a joint stock company
"State Balance of Natural Resources"	an annual record prepared by the Ministry of Natural Resources pursuant to the Subsoil Law stating the level of mineral raw materials subsisting within Russia and within the Subjects of the Russian Federation
"Subjects of the Russian Federation"	State legal formations which jointly comprise the Russian Federation. In accordance with the Constitution, there are six types of Russian Federation "Subjects": the republic of the Russian Federation, countries, regions, federal cities, autonomous regions and autonomous districts
"take-or-pay" contract	a contract under which a purchaser agrees to take natural gas from a supplier for an agreed period and price and to pay an agreed sum to a supplier should the purchaser be unable to continue to buy

"tcm"	trillion cubic meters, as measured under one atmosphere of pressure at 20°C
"tonne"	one metric tonne
"Transbalkan Pipeline Project"	Gazprom's project on the expansion and modernisation of the existing pipeline network in the Ukraine, Romania and Bulgaria
"Western Europe"	Andorra, Austria, Belgium, Canary Islands, Channel Islands, Cyprus, Denmark, Finland, France, Germany, Gibraltar, Greece, Greenland, Iceland, Republic of Ireland, Isle of Man, Italy, Liechtenstein, Luxembourg, Malta, Monaco, The Netherlands, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, Turkey and the United Kingdom
"UGSS"	Unified Gas Supply System
"US" or "U.S."	United States of America
"Yamal-Europe Project"	Gazprom's project, which consists of the construction of pipelines (total length approximately 5,900 km) from the northern part of the Tyumen region in the Russian Federation to Germany, running through the territories of Belarus and Poland.
"Yamburg Agreement"	a number of contracts made between government authorities of the former USSR and a number of Central and Eastern European countries in 1985-1992 which provided for gas deliveries by Gazprom.

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 tonne	1,000 kilos, 2,204.6 pounds
1 kilometer	approximately 0.62 miles
1 metric tonne of oil equivalent	25.2 Quadrillion Btus (British Thermal Unit) approximately 1,125 cubic meters of natural gas.

INDEX TO FINANCIAL STATEMENTS OF GAZPROM

OAO GAZPROM

IAS CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2000 and 1999

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

To the Shareholders of OAO Gazprom

1. We have audited the accompanying consolidated balance sheets of OAO Gazprom and its subsidiaries and associates (the "Group") as of 31 December 2000 and 1999, and the related consolidated statements of operations, 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 at 31 December 2000 and 1999, and the results of its operations and its cash flows for the years then ended in accordance with International Accounting Standards.

4. Without qualifying our opinion, we draw your attention to Note 24 to the consolidated financial statements. The Government of the Russian Federation is the principal shareholder of the Group and governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

5. Further, we draw your attention to Note 28 to the consolidated financial statements. The consolidated financial statements as of 31 December 2000 and 1999, as previously issued, have been restated for changes in the general purchasing power of the Russian Rouble in accordance with International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" with all amounts stated in terms of the measuring unit current at 30 September 2001.

Moscow, Russian Federation
28 June 2001, except for Note 28, as to which the date is 30 January 2002

OAO GAZPROM

IAS CONSOLIDATED BALANCE SHEET

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

Notes		31 December 2000	1999	1998
	ASSETS			
	Current assets			
6	Cash and cash equivalents	16,544	17,613	14,269
7	Marketable securities	17,083	8,701	3,269
8	Accounts receivable and prepayments	302,629	301,248	337,845
9	Inventories	67,525	59,001	65,096
6	Other current assets	42,721	35,702	30,293
		446,502	422,265	450,799
	Long-term assets			
10	Property, plant and equipment	1,461,595	1,454,472	1,414,494
11	Investments	82,047	78,712	72,951
16	Deferred tax assets	111,845	—	—
24	Other long-term assets	42,660	67,232	83,172
		1,698,147	1,600,416	1,570,617
5	Total assets	2,144,649	2,022,681	2,021,416
	LIABILITIES AND EQUITY			
	Current liabilities			
12	Accounts payable and accrued charges	97,204	86,438	116,276
13	Taxes payable	130,593	184,342	185,490
14	Short-term loans and current portion of long-term borrowings	193,310	145,195	63,322
17	Provisions for liabilities and charges	9,938	7,714	—
		431,045	423,689	365,088
	Long-term liabilities			
15	Long-term borrowings	240,750	319,841	345,789
16	Deferred tax liabilities	—	119,383	17,069
17	Provisions for liabilities and charges	28,444	42,615	64,946
13	Restructured tax liabilities	10,099	—	—
		279,293	481,839	427,804
5	Total liabilities	710,338	905,528	792,892
23	Minority interest in subsidiaries	9,940	8,466	6,493
	Shareholders' equity			
18	Share capital	271,193	271,193	271,193
18	Treasury shares	(11,021)	(7,265)	(6,992)
18	Retained earnings and other reserves	1,164,199	844,759	957,830
		1,424,371	1,108,687	1,222,031
	Total liabilities and equity	2,144,649	2,022,681	2,021,416

A.B. Miller
Chairman of the Management Committee
30 January 2002

I.N. Bogatyreva
Chief Accountant
30 January 2002

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

OAO GAZPROM

IAS CONSOLIDATED STATEMENT OF OPERATIONS

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

Notes		Year ended 31 December 2000	1999	1998
5, 19	Sales	615,880	456,523	473,180
5, 20	Operating expenses	(466,389)	(424,584)	(551,346)
	Operating profit	149,491	31,939	(78,166)
4	Exchange gain	50,907	81,938	213,910
4	Exchange loss	(53,852)	(130,274)	(436,144)
	Interest income	13,018	14,796	12,183
13	Discount recorded upon restructured taxes	17,213	—	—
	Interest expense on taxes payable	(15,733)	(21,324)	(23,189)
	Other interest expense	(32,542)	(20,211)	(20,571)
	Net finance costs	(20,989)	(75,075)	(253,811)
	Share of results before tax of associates	724	(674)	(296)
	Income (loss) before gain on net monetary position, profit tax and minority interest	129,226	(43,810)	(332,273)
3	Monetary gain	46,647	70,220	117,771
	Profit (loss) before profit tax	175,873	26,410	(214,502)
	Current profit tax expense	(78,961)	(33,658)	(25,629)
	Deferred profit tax benefit (expense)	231,228	(101,140)	(42,100)
16	Net profit tax benefit (expense)	152,267	(134,798)	(67,729)
	Profit (loss) after profit tax	328,140	(108,388)	(282,231)
23	Minority interest	(1,730)	(251)	6,668
5	**Net profit (loss)**	326,410	(108,639)	(275,563)
21	**Basic profit (loss) per share (in Roubles)**	15.63	(5.15)	(12.88)

A.B. Miller
Chairman of the Management Committee
30 January 2002

E.A. Vasilieva
Chief Accountant
30 January 2002

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

OAO GAZPROM

IAS CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

Notes		Year ended 31 December		
		2000	1999	1998
	Operating activities			
22	**Net cash (used for) provided by operating activities**	100,929	19,698	(14,271)
	Investing activities			
	Capital expenditures	(55,369)	(48,066)	(38,497)
	Net change in loans made	1,656	(5,832)	(8,526)
	Interest received	12,056	13,703	11,230
10	Interest paid and capitalised	(16,615)	(12,349)	(5,617)
	Purchase of subsidiary, net of cash acquired	—	(2,144)	—
	Sale of investments	2,938	2,741	—
	Purchase of investments	(8,017)	(13,241)	(12,574)
	Net cash used for investing activities	(63,351)	(65,188)	(53,984)
	Financing activities			
	Proceeds from long-term borrowings (including current portion)	18,249	75,171	54,005
	Redemption of long-term borrowings (including current portion)	(112,260)	(144,774)	(156,893)
	Sale of promissory notes	56,676	5,975	—
	Redemption of promissory notes	(25,307)	(1,802)	—
15	(Repayment) proceeds from issuance of bonds	(610)	3,644	—
	Net increase in short-term loans	4,288	30,833	35,881
	Effect of inflation accounting on borrowings and short-term loans	72,132	110,895	147,578
18	Dividends paid	(3,460)	(1,070)	(1,832)
	Interest paid	(32,039)	(21,064)	(18,678)
	Purchases of treasury shares	(8,112)	(9,098)	(11,781)
	Sales of treasury shares	7,472	9,300	13,958
	Profit tax on sales of treasury shares	(935)	(143)	—
6	Change in cash restricted on borrowings	(7,138)	(8,771)	(10,698)
	Net cash (used for) provided by financing activities	(31,044)	49,096	51,540
	Effect of exchange rate changes on cash and cash equivalents	1,768	13,568	36,114
	Effect of inflation accounting on cash and cash equivalents	(9,371)	(13,857)	(24,539)
	(Decrease) increase in cash and cash equivalents	(1,069)	3,317	(5,140)
6	Cash and cash equivalents, at beginning of year	17,613	14,296	19,436
6	**Cash and cash equivalents, at end of year**	16,544	17,613	14,296

A.B. Miller
Chairman of the Management Committee
28 June 2001

E.A. Vasilieva
Chief Accountant
28 June 2001

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

OAO GAZPROM

IAS CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

Notes		Number of shares outstanding (billions)	Share capital	Treasury shares	Retained earnings and other reserves	Total shareholders' equity
	Balance at 31 December 1997	21.1	50,083	(9,458)	1,449,900	1,490,525
	Increase in the nominal value of shares	—	221,110	—	(221,110)	—
	Net loss	—	—	—	(275,563)	(275,563)
4, 18	Net treasury share transactions	0.3	—	2,466	(289)	2,177
18	Translation differences	—	—	—	10,075	10,075
4, 18	Return of social assets to governmental authorities	—	—	—	(5,183)	(5,183)
	Balance at 31 December 1998	21.4	271,193	(6,992)	957,830	1,222,031
	Net loss	—	—	—	(108,639)	(108,639)
4, 18	Net treasury share transactions	(0.3)	—	(273)	333	60
18	Translation differences	—	—	—	1,405	1,405
4, 18	Return of social assets to governmental authorities	—	—	—	(5,156)	(5,156)
4, 18	Dividends	—	—	—	(1,014)	(1,014)
	Balance at 31 December 1999	21.1	271,193	(7,265)	844,759	1,108,687
	Net profit	—	—	—	326,410	326,410
4, 18	Net treasury share transactions	(0.1)	—	(3,756)	2,181	(1,575)
18	Translation differences	—	—	—	715	715
4, 18	Return of social assets to governmental authorities	—	—	—	(6,182)	(6,182)
4, 18	Dividends	—	—	—	(3,684)	(3,684)
	Balance at 31 December 2000	21.0	271,193	(11,021)	1,164,199	1,424,371

A.B. Miller
Chairman of the Management Committee
30 January 2002

E.A. Vasilieva
Chief Accountant
30 January 2002

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

NOTES TO THE IAS CONSOLIDATED FINANCIAL STATEMENTS
(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

1 NATURE OF OPERATIONS

RAO Gazprom was established as a Russian joint stock company by Presidential Decree No. 1333 dated 5 November 1992. The Annual General Meeting of shareholders, held on 26 June 1998, approved a recommendation from the Board of Directors on revising the name of the Company in order to comply with the federal law on joint stock companies. Consequently, the Company became the open joint stock company Gazprom or OAO Gazprom.

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

The Group is directly 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 employees during 2000, 1999 and 1998 was 306, 298 and 309 thousand respectively.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of:

- a currency that is not freely convertible outside of the country;
- extensive currency controls;
- a low level of liquidity in the public and private debt and equity markets; and
- high inflation.

Transactions on the Russian stock exchange market are influenced by underdeveloped infrastructure, especially registration and settlement systems which are in the process of formation as well as the regulation basis.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

3 BASIS OF PRESENTATION

These financial statements are prepared in accordance with International Accounting Standards ("IAS"). The Group subsidiaries and associated undertakings 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 financial statements of the Group's subsidiaries and associated undertakings resident in the Russian Federation, which account for substantially all the assets and liabilities of the Group, are based on their statutory records, which are maintained under the historical cost convention with adjustments and reclassifications recorded in the financial statements for the purpose of fair presentation in accordance with IAS. Similar adjustments are recorded in the financial statements in respect of Group companies not resident in the Russian Federation.

3 BASIS OF PRESENTATION (continued)

The preparation of consolidated financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

The adjustments and reclassifications made to the statutory accounts for the purpose of IAS reporting include the restatement for changes in the general purchasing power of the Russian Rouble ("RR") in accordance with IAS 29, "Financial Reporting in Hyperinflationary Economies" ("IAS 29") (see Note 28).

These statements are prepared in accordance with all International Accounting Standards effective for financial statements covering periods ended 31 December 2000.

Reclassifications

Minor reclassifications have been made to certain prior year balances to conform to the current year presentation.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Consolidation

Significant subsidiary companies 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. Subsidiaries are consolidated from the date on which effective control is transferred and are no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealised 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. The consolidated financial statements of the Group reflect the results of operations of any subsidiaries acquired from the date control is established.

Assets and liabilities of subsidiaries acquired are restated to comply with uniform Group accounting policies. 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/associated undertaking at the date of acquisition is recorded as goodwill. In respect of associates, goodwill is included in investments in associated undertakings.

Associated undertakings

Associated undertakings are undertakings over which the Group has significant influence, but which it does not control. Provisions are recorded for long-term impairment in value. Associated undertakings are accounted for using the equity method.

Equity accounting involves recognising in the income statement the Group's share of the associated undertakings' profit or loss for the year. The Group's interest in the associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate and includes goodwill on the acquisition.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Mutual cancellation and barter transactions

A significant portion of accounts receivable arising from sales are settled either through a chain of non-cash transactions (mutual cancellations), sometimes involving several enterprises, or, to a lesser extent, through direct settlement by goods from the final customer (barter). A portion of operations, including capital expenditures, is transacted by mutual cancellations or barter. Such transactions are excluded from investing and financing activities in the consolidated statement of cash flows. Net cash received from operating activities in the consolidated statement of cash flow also represents actual cash flow transactions. However, individual items within operating activities are stated inclusive of both cash and non-cash transactions due to the significance of non-cash transactions in the form of barter and mutual-cancellation offsets. Management believes the costs which would be required to be expended to determine such information would outweigh the benefits of having such information.

Receivables and payables that are expected to be settled by mutual settlements, barter or other non-cash settlements, are recognised based on management's estimate of the fair value to be received or given up. Approximately, 22%, 40% and 46% of accounts receivable from gas sales settled during the years ended 31 December 2000, 1999 and 1998, respectively, were settled in this manner.

Deferred tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using a balance sheet liability method for financial reporting and accounting for deferred income taxes. 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 taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Foreign currencies

The balance sheets of foreign subsidiaries and associated undertakings and the monetary assets and liabilities which are held by the Group and denominated in foreign currencies at the year end are translated into Roubles at the exchange rates prevailing at the year end. Exchange differences arising on the retranslation of the net assets of foreign subsidiaries and associated undertakings are recognised as translation differences and included in shareholders' equity. Statements of operations of foreign entities are translated at average exchange rates for the year.

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 in the consolidated statement of operations.

Property, plant and equipment

Property, plant and equipment are carried at historical cost restated to the equivalent purchasing power of the RR at 31 December 2000 on the basis of the indices included in Note 28.

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.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised as part of the cost of the asset during the period of time that is required to complete and prepare the asset for its intended use.

The return to a governmental authority of social assets (such as housing, rest houses, schools and medical facilities) vested to the Group at privatisation are recorded only upon both the transfer of title to, and termination of operating responsibility for, the social assets. These disposals are deemed 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 other reserves.

Depreciation is calculated on all assets on a straight line basis. Depreciation on wells and production equipment has been calculated on cost restated to the equivalent purchasing power of the Rouble at 31 December 2000, using the straight line method rather than, as is the more generally accepted international industry practice, on the unit-of-production method. As a result, gas production and changes in gas reserves do not impact the computation of the Group's depreciation. The estimated useful lives of the Group's assets are as follows:

	Years
Pipelines	33
Wells and production equipment	12-40
Machinery and equipment	10-18
Buildings	30-40
Roads	20-40
Social assets	10-40

Assets under construction are not depreciated.

Investments

Long-term investments, excluding bonds, are reflected at cost restated to the equivalent purchasing power of the RR at 31 December 2000. Bonds are reflected at amortised cost. Provision for impairment is only made where, in the opinion of the Group's management, there is a diminution in value, which is other than temporary. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the consolidated statement of operations.

Marketable securities

Marketable securities are valued at the lower of cost restated to the equivalent purchasing power of the Rouble at 31 December 2000 on the basis of indices included in Note 28, or market value.

Accounts receivable

Accounts receivable are carried at anticipated realisable value. An impairment estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. This estimate reflects, inter alia, the payment record of specific debtors and management's perception of the economic risks and factors specific to customers operating in certain regions and markets. Bad debts are written off in the year in which they are identified.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are valued at the lower of net realisable value or weighted average cost restated to the equivalent purchasing power of the RR at 31 December 2000 on the basis of indices included in Note 28.

Provisions

Provisions including provisions for environmental liabilities, are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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 operations in the period in which the reduction is identified.

Pension and other post-retirement benefits

Mandatory contributions to the governmental pension scheme are expensed when incurred and are included within staff costs in the operating expenses. The cost of providing other immaterial discretionary pension payments and other post-retirement obligations (including constructive) is accrued and charged to the consolidated statement of operations so as to spread the regular cost over the service lives of employees.

Revenue recognition

Sales are recognised for financial reporting purposes when products are delivered to customers and title passes and are stated net of value-added tax ("VAT"), excise taxes and other similar compulsory payments.

Interest income is recognised as it accrues (taking into account the effective yield on the asset), unless collectibility is in doubt.

Research and development

Research and development expenditure is recognised as an expense except that costs incurred on development projects are recognised as development assets to the extent that such expenditure is expected to have future benefits. However, development costs initially recognised as an expense are not recognised as an asset in a subsequent period.

Development costs that have been capitalised are amortised from the commencement of the commercial production of the product to which they relate on a straight line basis over estimated useful lives.

Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, trade creditors and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group is also party to derivative financial instruments including forward and spot transactions and option contracts in foreign exchange, gold and securities markets. The Group's normal policy is to measure these instruments using contractual rates, with resultant gains or losses being reported within the consolidated statement of operations. Following the financial crisis of August 1998, the Group adopted specific accounting methods as follows:

Index Forwards

The Group has either paid the amount due under index contracts, and realised a loss (gain), or negotiated a settlement for a lesser amount and has recognised a loss (gain) based on the agreed terms, or has not settled with the counterparty. Where no settlements or agreements have been reached the loss on the index contracts has been recognised by applying the rate of exchange ruling at the date of the contract maturity, for domestic counterparties, and the year end exchange rate, for foreign counterparties. This difference in the application of exchange rates is due to the fact that settlements with domestic counterparties in the normal course of business have been performed in RR, and with foreign counterparties in foreign currency. Management has not recorded a gain where no settlement or agreements have been reached due to the uncertainty of collectibility.

Gains and losses recognised on the index contracts have been offset within each counterparty since management believes that there is a legally enforceable right to offset these amounts, and it intends to settle all the contracts with the same counterparty on a net basis.

Deliverable Forwards

The Group has either paid the amount due under deliverable contracts and recognised a loss (gain), or negotiated a settlement for a lesser amount and has recognised a loss (gain) based on the agreed terms, or has not settled with the counterparty. Where no settlements or agreements have been reached the loss on the deliverable contracts has been recognised based on the year end exchange rate, plus interest and penalties where applicable. Management has not recorded a gain where no settlement or agreements have been reached due to the uncertainty of collectibility.

Gains and losses on the deliverable contracts have not been offset within counterparties.

Options

Where conditions of an option agreement include the actual delivery of currency, the Group has treated a loss (gain) in the same way as for the deliverable forwards contracts, otherwise the Group has used the index forwards approach.

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.

Treasury shares

Treasury shares are recorded at cost, using the specific identification method. The gains (losses) arising from treasury share transactions are recognised as a movement in shareholders' equity, net of associated costs including taxation.

Dividends

Dividends are recognised as a liability at the balance sheet date only if they are proposed or declared before or on the balance sheet date.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Developments

A new International Accounting Standard, IAS 39 "Financial Instruments: Recognition and Measurement" came into effect on 1 January 2001. The Standard requires all financial assets and financial liabilities to be recognised on the balance sheet, including all derivatives. Management has not yet evaluated the impact of this standard on the Group's consolidated financial statements for the year ending 31 December 2001.

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—extraction of gas and other hydrocarbons;
- Refining—processing of gas and other hydrocarbons, and sales of other hydrocarbon products;
- Transport—transportation of gas;
- Distribution—sales of gas in the Russian Federation and abroad; and
- Other—other activities, including banking.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

5 SEGMENT INFORMATION—(Continued)

	Production	Refining	Transport	Distribution	Other	Total
31 December 2000						
Segment assets	450,569	18,999	1,010,735	253,483	228,824	1,962,610
Associated undertakings	—	—	48,619	2,741	6,786	58,146
Unallocated assets						192,081
Inter-segment eliminations						(68,188)
Total assets						2,144,649
Segment liabilities	24,961	4,981	23,994	77,141	34,315	165,392
Unallocated liabilities						613,134
Inter-segment eliminations						(68,188)
Total liabilities						710,338
Capital expenditures for the period	49,578	3,025	47,515	379	35,425	135,922
Depreciation	23,756	2,054	51,755	115	3,432	81,112
Charges for impairment and provisions	17,106	11,502	19,572	27,928	(8,305)	67,803
31 December 1999						
Segment assets	443,445	31,285	1,043,540	265,216	180,423	1,963,909
Associated undertakings	—	—	51,503	1,342	3,975	56,820
Unallocated assets						78,378
Inter-segment eliminations						(76,426)
Total assets						2,022,681
Segment liabilities	15,282	4,338	25,409	83,098	34,738	162,865
Unallocated liabilities						819,089
Inter-segment eliminations						(76,426)
Total liabilities						905,528
Capital expenditures for the period	36,623	2,073	96,063	1,414	31,293	167,466
Depreciation	22,270	1,787	47,592	89	2,059	73,797
Charges for impairment and provisions	18,294	246	5,763	14,261	5,384	43,948

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

5 SEGMENT INFORMATION—(Continued)

	Production	Refining	Transport	Distribution	Other	Total
31 December 1998						
Segment assets	467,259	37,583	1,051,291	324,086	152,528	2,032,747
Associated undertakings	—	—	40,917	1,661	4,383	46,961
Unallocated assets						59,806
Inter-segment eliminations						(118,098)
Total assets						2,021,416
Segment liabilities	19,950	9,980	34,015	115,867	54,562	234,374
Unallocated liabilities						676,616
Inter-segment eliminations						(118,098)
Total liabilities						792,892
Capital expenditures for the period	34,535	2,136	47,015	741	8,317	92,744
Depreciation	21,986	1,796	47,786	87	2,065	73,720
Charges for impairment and provisions	9,236	1,105	9,356	29,839	9,411	58,947
31 December 2000						
Segment revenues						
Inter-segment sales	48,346	10,772	113,934	6,732	—	179,784
External sales	6,197	33,770	30,487	511,630	33,796	615,880
Total segment revenues	54,543	44,542	144,421	518,362	33,796	795,664
Segment expenses						
Inter-segment expenses	(1,185)	(5,292)	(9,299)	(164,008)	—	(179,784)
External expenses	(70,261)	(34,952)	(123,629)	(178,874)	(33,084)	(440,800)
Total segment expenses	(71,446)	(40,244)	(132,928)	(342,882)	(33,084)	(620,584)
Segment Result	(16,903)	4,298	11,493	175,480	712	175,080
Unallocated operating expenses						(25,589)
Operating income						149,491
Net finance costs						(20,989)
Share of net profits of associated undertakings	—	—	153	392	179	724
Monetary Gain						46,647
Income before profit tax						175,873
Profit tax benefit						152,267
Income after profit tax						328,140
Minority interest						(1,730)
Net income						326,410

NOTES TO THE IAS CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

5 SEGMENT INFORMATION—(Continued)

	Production	Refining	Transport	Distribution	Other	Total
31 December 1999						
Segment revenues						
Inter-segment sales	36,792	10,012	102,728	4,273	—	153,805
External sales	4,055	18,157	23,843	383,607	26,861	456,523
Total segment revenues	40,847	28,169	126,571	387,880	26,861	610,328
Segment expenses						
Inter-segment expenses	(560)	(4,187)	(5,926)	(143,132)	—	(153,805)
External expenses	(61,668)	(19,497)	(122,986)	(150,705)	(30,939)	(385,795)
Total segment expenses	(62,228)	(23,684)	(128,912)	(293,837)	(30,939)	(539,600)
Segment result	(21,381)	4,485	(2,341)	94,043	(4,078)	70,728
Unallocated operating expenses						(38,789)
Operating income						31,939
Net finance costs						(75,075)
Share of net (losses) profits of associated undertakings	—	—	(922)	381	(133)	(674)
Monetary gain						70,220
Income before profit tax						26,410
Profit tax expense						(134,798)
Loss after profit tax						(108,388)
Minority interest						(251)
Net loss						(108,639)
31 December 1998						
Segment revenues						
Inter-segment sales	66,244	9,715	178,939	6,529	—	261,427
External sales	4,163	18,608	28,801	398,037	23,571	473,180
Total segment revenues	70,407	28,323	207,740	404,566	23,571	734,607
Segment expenses						
Inter-segment expenses	(654)	(6,383)	(7,838)	(246,552)	—	(261,427)
External expenses	(84,389)	(24,860)	(145,939)	(122,253)	(83,739)	(461,180)
Total segment expenses	(85,043)	(31,243)	(153,777)	(368,805)	(83,739)	(722,607)
Segment result	(14,636)	(2,920)	53,963	35,761	(60,168)	12,000
Unallocated operating expenses						(90,166)
Operating loss						(78,166)
Net finance costs						(253,811)
Share of net (losses) profits of associated undertakings	—	—	(609)	453	(140)	(296)
Monetary gain						117,771
Loss before profit tax						(214,502)
Profit tax expense						(67,729)
Loss after profit tax						(282,231)
Minority interest						6,668
Net loss						(275,563)

5 SEGMENT INFORMATION (continued)

The inter-segment revenues mainly consist of:

Production—sale of gas to the Distribution segment and sale of hydrocarbons to the Refining segment;

- Refining—sale of refined products to other segments;
- Transport—rendering transportation services to the Distribution segment; and
- Distribution—sale of gas to the Transport segment for technological needs.

Internal transfer prices are established by the management of the Group with the objective of providing for the specific medium and long-term funding requirements of the individual segments. Provisions for guarantees (see Note 25) have been included within unallocated expenses. Also included within unallocated expenses are corporate expenses, including provision for the impairment of other investments.

External expenses within Other for the year ended 31 December 1998 include losses on derivatives and loan losses totalling RR 34,141 and RR 7,673, respectively.

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

Capital expenditures comprise additions to property, plant and equipment. Charges for impairment relate only to those charges made against allocated assets. A significant portion of operations is transacted by mutual cancellations or barter. As disclosed in Note 4, such transactions are reported on the same basis as cash transactions. Consequently, expenses paid by mutual cancellations or barter are not disclosed as non-cash expenses in this note.

Substantially all of the Group's operating assets are located in the Russian Federation. Gas sales to different geographical regions are disclosed in Note 19.

6 CASH AND CASH EQUIVALENTS

Balances included within cash and cash equivalents in the consolidated balance sheet represent cash in hand and balances with banks. Included within other current assets are balances of cash and cash equivalents totalling RR 36,300, RR 29,162 and RR 20,391 at 31 December 2000, 1999 and 1998, respectively, which are restricted as to withdrawal under the terms of certain of the borrowings (see Note 15). In addition, other current assets include balances of cash RR 5,692, RR 4,946 and RR 2,534 at 31 December 2000, 1999 and 1998, respectively, which are restricted in subsidiary banks as to withdrawal under banking regulations.

7 MARKETABLE SECURITIES

At 31 December 2000, marketable securities include Ukrainian eurobonds of RR 6,687 held by National Reserve Bank (see Note 11). The remaining carrying value of marketable securities principally comprises Russian government bonds.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

8 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December		
	2000	1999	1998
Trade receivables (net of a provision for doubtful accounts of RR 79,702, RR 69,564 and RR 103,930 at 31 December 2000, 1999 and 1998, respectively)	196,934	211,882	228,241
Prepayments and advances paid (net of a provision for doubtful accounts of RR 6,164 and RR 7,916 at 31 December 2000 and 1999, respectively)	31,930	22,920	38,263
Other receivables (net of a provision for doubtful accounts of RR 29,256, RR 26,903 and RR 20,509 at 31 December 2000, 1999 and 1998, respectively)	73,765	66,446	71,341
	302,629	301,248	337,845

Substantially all trade receivables are currently receivable in accordance with their contractual terms and, accordingly, are classified as current assets. Management has considered the likelihood of collection of receivables beyond 2001 when determining the amount of the provision for doubtful accounts.

RR 90,672, RR 103,754 and RR 84,000 of trade receivables were denominated in hard currency, mainly United States ("US") dollars, at 31 December 2000, 1999 and 1998, respectively.

Other receivables include RR 25,551, RR 32,893 and RR 41,184 of receivables relating to the operations of Gazprombank and National Reserve Bank (see Note 23) at 31 December 2000, 1999 and 1998, respectively. These balances mainly represent loans issued to other banks and customers at commercial rates ranging from 4.7% to 23.6% per annum at 31 December 2000, 3.0% to 40.0% per annum at 31 December 1999 and 1.0% to 40.0% per annum at 31 December 1998 .

9 INVENTORIES

		31 December		
Note		2000	1999	1998
	Materials and supplies	33,574	28,223	29,491
20	Gas (in pipelines and storage)	28,512	24,138	26,395
	Goods for resale	3,853	4,081	7,005
	Other	1,586	2,559	2,205
		67,525	59,001	65,096

Inventories are presented net of a provision for obsolescence of RR 13,766, RR 9,398 and RR 12,207 at 31 December 2000, 1999 and 1998, respectively.

Goods for resale are stated at their net realisable value at 31 December 2000, 1999 and 1998, respectively.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

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
At 31.12.97								
Cost	954,527	277,960	315,700	429,996	1,978,183	121,155	290,101	2,389,439
Accumulated depreciation	(380,863)	(133,969)	(208,988)	(199,197)	(923,017)	(20,759)	—	(943,776)
Net book value at 31.12.97	573,664	143,991	106,712	230,799	1,055,166	100,396	290,101	1,445,663
Depreciation	(26,471)	(9,390)	(18,168)	(16,078)	(70,107)	(3,613)	—	(73,720)
Additions	2,240	20,214	27,751	30,457	80,662	11,717	365	92,744
Disposals	(1,119)	(2,007)	(3,960)	(6,514)	(13,600)	(11,865)	(4,909)	(30,374)
Impairment charge	—	—	—	—	—	—	(19,819)	(19,819)
Net book value at 31.12.98	548,314	152,808	112,335	238,664	1,052,121	96,635	265,738	1,414,494
At 31.12.98								
Cost	952,559	294,975	331,915	448,648	2,028,097	117,300	265,738	2,411,135
Accumulated depreciation	(404,245)	(142,167)	(219,580)	(209,984)	(975,976)	(20,665)	—	(996,641)
Net book value at 31.12.98	548,314	152,808	112,335	238,664	1,052,121	96,635	265,738	1,414,494
Depreciation	(27,270)	(8,658)	(18,831)	(15,949)	(70,708)	(3,089)	—	(73,797)
Additions	26,324	17,144	54,046	32,729	130,243	9,718	14,432	154,393
Acquisition of subsidiary	—	—	3,008	4,954	7,962	—	5,111	13,073
Disposals	(83)	(973)	(4,633)	(7,163)	(12,852)	(13,126)	(4,302)	(30,280)
Impairment charge	—	—	—	—	—	—	(23,411)	(23,411)
Net book value at 31.12.99	547,285	160,321	145,925	253,235	1,106,766	90,138	257,568	1,454,472
At 31.12.99								
Cost	978,124	311,650	380,908	476,331	2,147,013	111,233	257,568	2,515,814
Accumulated depreciation	(430,839)	(151,329)	(234,983)	(223,096)	(1,040,247)	(21,095)	—	(1,061,342)
Net book value at 31.12.99	547,285	160,321	145,925	253,235	1,106,766	90,138	257,568	1,454,472
Depreciation	(28,832)	(9,396)	(22,822)	(16,899)	(77,949)	(3,162)	—	(81,111)
Additions	16,354	12,898	44,968	40,314	114,534	11,910	9,478	135,922
Disposals	(3)	(850)	(2,440)	(3,234)	(6,527)	(9,285)	(3,365)	(19,177)
Impairment charge	—	—	—	—	—	—	(28,511)	(28,511)
Net book value at 31.12.00	534,804	162,973	165,631	273,416	1,136,824	89,601	235,170	1,461,595
At 31.12.00								
Cost	994,521	323,404	422,117	512,574	2,252,616	112,068	235,170	2,599,854
Accumulated depreciation	(459,717)	(160,431)	(256,486)	(239,158)	(1,115,792)	(22,467)	—	(1,138,259)
Net book value at 31.12.00	534,804	162,973	165,631	273,416	1,136,824	89,601	235,170	1,461,595

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

10 PROPERTY, PLANT AND EQUIPMENT (continued)

Assets under construction are presented net of a provision for impairment of RR 87,541, RR 59,030 and RR 35,620 at 31 December 2000, 1999 and 1998, respectively. Additions of assets under construction are stated net of transfers to other property, plant and equipment categories.

Included in additions above is capitalised interest of RR 17,951, RR 12,758 and RR 5,617 for the years ended 31 December 2000, 1999 and 1998, respectively. A capitalisation rate of 8.2% (1999 and 1998—8.1%) was used representing the average actual borrowing cost of the loans used to finance the projects.

Included in the property, plant and equipment above are fully depreciated assets which are still in service of RR 264,766, RR 263,277 and RR 229,785 at 31 December 2000, 1999 and 1998, respectively.

Depreciation disclosed above includes RR 869, RR 967 and RR 1,061 for the years ended 31 December 2000, 1999 and 1998, respectively, which is considered a cost of self constructed assets and thus capitalised rather than expensed in the consolidated statement of operations. Similarly, RR 10,594, RR 10,568 and RR 9,667 of depreciation for the years ended 31 December 2000, 1999 and 1998, respectively, is capitalised as a component of gas inventories and expensed in the consolidated statement of operations when the gas is sold.

The Group's gas fields are operated under licenses granted by federal and local authorities. These licenses to develop and extract hydrocarbons expire between 2013 and 2016, however they may be extended. Management intends to extend the existing licenses on properties expected to produce hydrocarbons subsequent to their current expiration dates.

11 INVESTMENTS

		31 December		
Notes		2000	1999	1998
	Associated undertakings:			
24	EuRoPolGaz s.a.	27,120	26,228	15,556
24	WINGAS GmbH	19,634	22,860	23,506
	Other	11,392	7,732	7,900
		58,146	56,820	46,962
	Other investments:			
	South Pars (development of an oil and gas field in Iran)	13,280	5,262	1,162
	Ukrainian Ministry of Finance bonds	—	5,894	9,995
	Other	10,621	10,736	14,832
		23,901	21,892	25,989
	Total investments	82,047	78,712	72,951

Associated undertakings and other investments are presented net of provision for impairment of RR 6,858 and RR 18,492, respectively, at 31 December 2000, RR 5,732 and RR 26,512, respectively, at 31 December 1999 and RR 3,112 and RR 25,461, respectively, at 31 December 1998.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

11 INVESTMENTS—(Continued)

Principal associated undertakings

			% of share capital held 31 December		
Associated undertaking	**Country**	**Nature of operations**	**2000**	**1999**	**1998**
WINGAS GmbH	Germany	Gas distribution and transportation	35	35	35
Altalanos Ertekforgalmi Bank Rt ("AEB")	Hungary	Banking	26	43	51
Gasum Oy	Finland	Gas distribution and transportation	25	25	25
Gazsnabtransit	Moldova	Gas distribution and transportation	50	50	50
EuRoPolGaz s.a.	Poland	Gas distribution and transportation	49	49	49
Latvias Gaze	Latvia	Gas distribution and transportation	25	16	16
Overgaz Inc.	Bulgaria	Gas distribution	50	50	50
Panrusgaz	Hungary	Gas distribution	33	35	35
Prometheus Gas	Greece	Construction	50	50	50
Slovrusgaz	Slovakia	Gas distribution	50	—	—
Stella Vitae	Lithuania	Gas distribution and transportation	30	30	30
Turusgaz	Turkey	Gas distribution	45	45	45

During 1999, the Group was the principal shareholder in AEB and executed effective control over the Bank. In April 2000, a portion of the controlling interest the Group held in AEB was sold, leaving the Group with a 26% interest in AEB (see Note 24). Thus, due to the inability of the Group to control the operations of AEB from April 2000, AEB was accounted for under the equity method.

Dividends received from associated undertakings were RR 1,318, RR 1,238 and RR 393 for the years ended 31 December 2000, 1999 and 1998, respectively.

Other investments

At 31 December 1999 and 1998, other investments included Ukrainian Ministry of Finance bonds held by National Reserve Bank with a carrying value of RR 5,894 and RR 9,995, respecively. These bonds were issued by the Ukrainian government in settlement of gas sales made to the Ukraine in 1994. The bonds were denominated in US dollars, carry an interest rate of 8.5% per annum and were redeemable between June 1999 and March 2006. At 31 December 1999 and 1998 the Group had pledged Ukrainian bonds against certain short-term borrowings. In April 2000, the Group was elected to participate in a restructuring program and exchanged these bonds for US dollar denominated eurobonds issued by the Cabinet of Ministers of Ukraine bearing interest at 11.0% per annum. The new eurobonds mature between March 2001 and March 2007 with repayment of principal to be made in semi-annual installments, commencing in March 2001. Upon exchange of the original bonds the Group transferred the eurobonds to marketable securities at their estimated fair value (see Note 7).

At 31 December 2000 and 1999, the Group had a 14.3% interest in ZAO Media-Most. This interest in ZAO Media-Most was acquired in November 1999 via the settlement of a ZAO Media-Most debt to the Group. ZAO Media-Most is one of the largest publishing and entertainment companies operating in the Russian Federation.

At 31 December 1999, the Group held collateral representing an interest of 17.1% in ZAO Media-Most in exchange for providing certain loan guarantees on behalf of ZAO Media-Most. During 2000, ZAO Media-Most defaulted on its payment obligation and the Group fulfilled its obligations.

In November 2000, the Group signed agreements with ZAO Media-Most to change the collateral under the guarantees, both those fulfilled in 2000 and those outstanding at 31 December 2000 (see Note 25) to interests in NTV and other ZAO Media-Most operating companies. The Group then exercised its rights to take ownership of interests in ZAO Media-Most operating companies and a further interest in NTV.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

11 INVESTMENTS (continued)

At 31 December 2000, the Group held a 46% interest in NTV and 25% plus one share interest in various other ZAO Media-Most operating companies.

Outstanding guarantees of the Group made on behalf of ZAO Media-Most as at 31 December 2000 amounted to RR 8,399 with collateral in the form of interests in NTV and other ZAO Media-Most operating companies (see Note 25).

The Group is currently in negotiations to sell its investments in NTV and other ZAO Media-Most operating companies.

12 ACCOUNTS PAYABLE AND ACCRUED CHARGES

	31 December		
	2000	1999	1998
Trade payables	32,330	28,876	28,086
Accounts payable in respect of acquisition of property, plant and equipment	26,057	21,270	29,948
Advances received	1,981	1,977	3,218
Accruals and deferred income	1,248	917	5,050
Other payables	35,588	33,398	49,974
	97,204	86,438	116,276

Other payables includes RR 15,784, RR 13,242 and RR 37,987 related to the operations of the Group's banking subsidiaries at 31 December 2000, 1999 and 1998, respectively. These balances mainly represent amounts due to the banks' customers with terms at commercial rates ranging from 3.6% to 11.6% per annum at 31 December 2000, 7.2% to 10.0 % per annum at 31 December 1999 and 4.4% to 40.0 % per annum at 31 December 1998.

13 TAXES PAYABLE

	31 December		
	2000	1999	1998
Excise tax (including deferred amounts of RR 23,176, RR 29,608 and RR 40,773 at 31 December 2000, 1999 and 1998, respectively)	38,774	53,488	68,694
Tax penalties and interest	38,264	41,526	35,787
VAT, net (including deferred amounts of RR 3,888, RR 15,796 and RR 19,817 at 31 December 2000, 1999 and 1998, respectively)	24,697	39,767	37,910
Road use and housing fund taxes (including deferred amounts of RR 2,826, RR 6,339 and RR 9,109 at 31 December 2000, 1999 and 1998, respectively)	12,124	21,966	20,938
Profit tax	9,422	10,610	3,666
Mineral use and mineral restoration taxes (including deferred amounts of RR 1,944, RR 1,532 and RR 2,666 at 31 December 2000, 1999 and 1998, respectively)	9,080	6,902	7,164
Pension fund and other social taxes	2,633	1,654	2,728
Other taxes	5,698	8,429	8,603
	140,692	184,342	185,490
Less: long term portion of restructured tax liabilities	(10,099)	—	—
	130,593	184,342	185,490

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

13 TAXES PAYABLE (continued)

The deferred amounts included in the taxes above are payable upon settlement of the related trade receivable balances. Substantially all accrued taxes above, excluding the deferred amounts and restructured liability (see below) incur interest at a rate of 1/300 of the refinancing rate of the Central Bank of the Russian Federation (the refinancing rate was last set at 25.0% per annum on 4 November 2000). Interest does not accrue on tax penalties and interest.

During 2000 the Group negotiated the restructuring of its tax liabilities in accordance with current tax regulations.

The long-term portion of the restructured tax and penalties liability has the following maturity profile:

	31 December 2000
Due for repayment:	
Between one and two years	2,595
Between two and five years	7,769
After five years	16,948
	27,312
Less: discount recorded upon restructured taxes	(17,213)
	10,099

The above balances have been discounted using the marginal RR rate of borrowings of the Group of 21.2% in order to present the debt at its fair value.

14 SHORT-TERM LOANS AND CURRENT PORTION OF LONG-TERM BORROWINGS

	31 December		
	2000	1999	1998
Short-term loans	140,032	94,829	49,948
Current portion of long-term borrowings (see Note 15)	53,278	50,366	13,374
	193,310	145,195	63,322

Short-term borrowings include RR denominated bank borrowings with interest rates varying from 17% to 37% for the year ended 31 December 2000, from 35% to 40% for the year ended 31 December 1999 and from 58% to 61% for the year ended 31 December 1998.

Short-term borrowings also include RR 65,671, RR 28,516 and RR 12,131 of short-term promissory notes at 31 December 2000, 1999 and 1998, respectively.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

15 LONG-TERM BORROWINGS

	Currency	Due	31 December 2000	1999	1998
Long-term borrowings payable to:					
A French banking consortium	US dollar	2000-2005	91,104	111,192	115,956
A German banking consortium	US dollar	2000-2005	68,895	94,697	96,629
An Italian banking consortium	US dollar	2000-2007	36,791	48,974	55,984
A German consortium	Euro	2000-2009	20,433	27,841	18,618
An International banking consortium	Deutsche mark	2000-2005	14,462	18,885	22,878
A German banking consortium	Euro	2000-2009	11,262	16,074	20,586
A German bank consortium	Euro	2000-2002	7,728	11,546	18,486
A Cyprus banking consortium	US dollar	2000-2005	8,688	9,940	—
Other long-term borrowings			34,665	31,058	10,026
Total long-term borrowings			294,028	370,207	359,163
Less: current portion of long-term borrowings			(53,278)	(50,366)	(13,374)
			240,750	319,841	345,789

	31 December 2000	1999	1998
Due for repayment:			
Between one and two years	62,533	71,606	45,975
Between two and five years	147,148	185,944	185,184
After five years	31,069	62,291	114,630
	240,750	319,841	345,789

Interest rates on the borrowings are variable and linked, mainly, to LIBOR, except for interest on the Italian borrowing, which is fixed at 5.7%. The annual interest rates on US dollar denominated borrowings range from 5.7% to 10.7% per annum at 31 December 2000, from 5.7% to 10.5% per annum at 31 December 1999 and from 5.7% to 7.4% per annum at 31 December 1998. The annual interest rates on Euro denominated borrowings range from 3.8% to 6.1% per annum at 31 December 2000. The annual interest rates on DM denominated borrowings range from 4.8% to 8.4% per annum at 31 December 2000, from 3.2% to 8.0% per annum at 31 December 1999 and from 3.7% to 8.5% per annum at 31 December 1998. Substantially all borrowings are secured by contractual obligations to sell gas in Western Europe and the associated cash flows (see Note 6). The amount payable to an international banking consortium is also secured by certain assets of ZGG-Zarubezhgaz Erdgashandels GmbH, a wholly owned subsidiary.

The fair value of the fixed rate Italian loan is RR 32,342, RR 38,945 and RR 42,599 at 31 December 2000, 1999 and 1998, respectively. The carrying amounts of variable rate loans approximate fair value.

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

Long-term borrowings include RR 3,085 and RR 3,542 at 31 December 2000 and 1999, respectively, of coupon non-documentary bearer bonds issued by OAO Gazprom in 1999. The issue amounted to 3.0 million bonds, each with a nominal value of RR 1,000 and a due date of 15 April 2003. During the year 2000, the Group repurchased 481,187 bonds. The total amount recorded for the bonds excludes the discount related to future periods.

At 31 December 2000 long-term borrowings also include RR 7,058 of promissory notes with due dates beyond 2001.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

15 LONG-TERM BORROWINGS (continued)

The US dollar to RR exchange rates were 28.16, 27.00 and 20.65 at 31 December 2000, 1999 and 1998, respectively. The Euro to RR exchange rates were 26.14 and 27.32 at 31 December 2000 and 1999, respectively. The DM to RR exchange rates were 13.37, 13.92 and 12.35 at 31 December 2000, 1999 and 1998, respectively.

16 PROFIT TAX

Profit tax expense in the consolidated statement of operations is stated net of RR 935 and RR 143 of tax attributable to gains arising on treasury share transactions for the year ended 31 December 2000 and 1999, respectively (see Note 4). No profit tax expense was associated with treasury share transactions for the year ended 31 December 1998.

The Group accrued profit tax at rates of 30.0% and 38.0% on profits from non-banking and banking activities, respectively, computed in accordance with the Russian tax legislation. Before enactment of such rates on 1 April 1999, the corresponding tax rates were 35.0% and 43.0%. Starting from 1 January 2001 the profit tax rates were increased effectively to 35.0% and 43.0%, respectively. IAS profit before profit tax for financial reporting purposes is reconciled to profit tax expense as follows:

	Year ended 31 December		
	2000	1999	1998
IAS profit(loss) before profit tax	175,873	26,410	(214,502)
Theoretical tax (charge) credit at a statutory rate thereon	(52,762)	(7,923)	75,075
Tax effect of items which are not deductible or assessable for taxation purposes:			
Non-temporary element of monetary gains and losses	(51,898)	(109,098)	(228,246)
Non-deductible expenses	(45,270)	(45,700)	89,738
Statutory tax concessions	22,527	14,866	—
Other non-temporary differences	(6,084)	9,271	7,166
Inflation effect on deferred profit tax balance at beginning of year	6,001	3,201	(11,462)
Effect of increase in taxable base due to statutory revaluation	263,775	—	—
Effect of change in tax rate	15,978	585	—
Profit tax benefit (expense)	152,267	(134,798)	(67,729)

The non-temporary impact of monetary gains and losses reflects the effect on the theoretical tax charge of inflation with respect to non-monetary items of a non-temporary nature (primarily social assets and equity).

Differences between Russian statutory taxation regulations and IAS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 35.0% or 43.0% as applicable.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

16 PROFIT TAX (continued)

	31 December 2000	Change in tax rate	Differences recognition and reversals	31 December 1999	Change in tax rate	Acquisitions	Differences recognition and reversals	31 December 1998
Tax effects of taxable temporary differences:								
Accounts receivable	(29,966)	(4,282)	(9,734)	(15,950)	2,273	—	3,494	(21,717)
Inventories	(3,982)	(569)	2,274	(5,687)	865	—	1,711	(8,263)
Investments	(902)	(128)	(415)	(359)	709	—	5,711	(6,779)
Tax effects of deductible temporary differences:								
Property, plant and equipment	142,673	20,382	227,656	(105,365)	418	(1,175)	(100,617)	(3,991)
Provision for doubtful accounts	4,022	575	1,242	2,205	962	—	10,448	(9,205)
Tax losses carryforward	—	—	(5,773)	5,773	(3,438)	—	(23,675)	32,886
Total net deferred tax asset (liability)	111,845	15,978	215,250	(119,383)	1,789	(1,175)	(102,928)	(17,069)

Deferred tax assets and liabilities arise mainly from differences in the taxable and financial reporting bases of property, plant and equipment. These differences are due to the fact that a significant proportion of the tax base is based upon independent appraisals while the financial reporting base is historical cost restated for changes in the general purchasing power of the RR (see Note 3).

At 31 December 1999 the Group recognised a deferred tax liability of RR 119,383, mainly as the tax base was lower than the financial reporting base for property, plant and equipment. The difference was due to the fact that a significant portion of the tax basis is based upon independent appraisal which was last recognised at 1 January 1998. At 31 December 2000 the Group has recognised a deferred tax asset of RR 263,775; this asset arises due to the temporary differences resulting from a revaluation of the carrying value of property, plant and equipment recognised in the Russian financial statements at 1 January 2001. The result of the revaluation is allowable for profit tax purposes under Russian statutory taxation regulations, effectively increasing the taxable base of property, plant and equipment.

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 41,835, RR 16,770 and RR 20,580 at 31 December 2000, 1999 and 31 December 1998, respectively. A deferred tax liability on these temporary differences was not recognised because management controls the timing of the reversal of the temporary differences and believes that they will not reverse in the foreseeable future.

17 PROVISIONS FOR LIABILITIES AND CHARGES

Notes		31 December 2000	1999	1998
26	Provision for losses on derivatives	13,180	18,991	28,743
25	Provision for guarantees	9,938	18,691	24,333
	Provision for environmental liabilities	5,099	4,887	5,525
	Other	10,165	7,760	6,345
		38,382	50,329	64,946
	Less: current portion of provisions for liabilities and charges	(9,938)	(7,714)	—
		28,444	42,615	64,946

18 SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totaled RR 271,193 at 31 December 2000, 1999 and 1998 and consists of 23.7 billion ordinary shares, each with a nominal value of RR 5.

Treasury shares

At 31 December 2000, 1999 and 31 December 1998, subsidiaries of OAO Gazprom held 2,684 million, 2,614 and 2,327 million, respectively, of the ordinary shares of OAO Gazprom.

Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement to the equivalent purchasing power of the Rouble at 31 December 2000, and cumulative translation differences of RR 17,175, RR 16,460 and RR 15,055 arising on the retranslating of the net assets of foreign subsidiaries and associated undertakings at 31 December 2000, 1999 and 1998, respectively.

Other reserves include a statutory fund for social assets, created at the time of privatisation in accordance with Russian legislation. The Group is negotiating to return certain of these assets to governmental authorities, though this process is expected to be protracted. Social assets with a net book value of RR 6,182, RR 5,156 and RR 5,183 have been transferred to governmental authorities during the years ended 31 December 2000, 1999 and 1998, respectively. These transactions have been recorded as a charge to 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. For 2000, the statutory profit for the parent company was RR 55,371. 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.

In 2000, the Group accrued interim dividends in the amount of RR 0.07 per share. In addition to the interim dividend, in 2001 the Board of Directors recommended payment of a final dividend for the year ended 31 December 2000 in the amount of RR 0.23 per share. Because this decision of the Group management was reached after the balance sheet date, the amount of final dividend proposed is not recognised in the consolidated balance sheet. Dividends accrued and paid for the year 1999, amounted of RR 0.10 per share. Taking into account the statutory loss recorded by the parent company for the year ended 31 December 1998, dividends were not accrued for that year.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

19 SALES

	Year ended 31 December		
	2000	1999	1998
Gas sales (including excise tax, net of VAT) to customers in:			
Russian Federation	98,380	104,603	198,802
Former Soviet Union (excluding Russian Federation)	66,726	73,390	71,109
Europe	454,383	291,379	255,094
Gross sales of gas	619,489	469,372	525,005
Excise tax	(101,662)	(81,710)	(122,806)
Net sales of gas	517,827	387,662	402,199
Sales of gas condensate and other oil products (net of sales taxes)	33,770	18,157	18,608
Gas transportation sales	30,487	23,843	28,801
Other revenues	33,796	26,861	23,572
	615,880	456,523	473,180

Commencing in 1999 the Group has been participating in the creation of regional companies involved in the distribution of gas in Russia. The interest of the Group in the majority of such companies amounts to less than 20% of their respective share capital.

Gas sales (net of VAT and excise tax) to customers in Russia include sales made to the regional companies of 141 billion cubic meters (bcm) and 43 bcm, or RR 47,173 and RR 13,612 for 2000 and 1999, respectively. Sales are made to the regional companies at prices marginally below regulated prices set for sales to final customers in Russia.

Transportation charges are provided at rates established by the Federal Energy Commission.

Gas transportation sales (net of VAT and excise tax) are primarily comprised of sales to companies of the Itera Group totaling RR 24,808 (71 bcm), RR 17,568 (57 bcm) and RR 11,152 (20 bcm) for the years ended 31 December 2000, 1999 and 1998, respectively. Trade receivables in respect of gas transportation services supplied to Itera amounted to RR 12,340, RR 3,852 and RR 108 at 31 December 2000, 1999 and 1998, respectively. Itera Group is a producer and distributor of gas in the Russian Federation and the former Soviet Union.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

20 OPERATING EXPENSES

	Year ended 31 December		
	2000	1999	1998
External transit costs	89,046	88,208	73,450
Depreciation	80,216	71,930	69,609
Staff costs	49,568	45,047	56,455
Taxes other than on income	46,845	40,644	53,910
Provision for doubtful accounts and debts written off	32,432	18,045	38,533
Materials	35,949	24,940	26,176
Provision for impairment of assets under construction	28,511	23,411	19,819
Provision for impairment and write-off of other long-term assets	21,668	18,908	12,200
Disposal of property, plant and equipment	11,866	12,057	12,123
Gas purchases	10,121	2,139	2,701
Electricity	9,234	8,947	14,386
Provision for inventory obsolescence	6,861	2,492	5,303
Research and development	4,865	3,133	4,605
Provision for impairment of investments	2,246	9,776	31,094
Goods for resale	1,905	906	4,636
Provisions for guarantees and other charges	1,105	9,913	24,685
Tax penalties	296	485	1,851
Derivative (gains) loss	(3,230)	(4,580)	34,142
Other	36,885	48,183	65,668
	466,389	424,584	551,346

Operating expenses include RR 25,625, RR 21,499 and RR 24,560 attributable to maintenance and repairs for the years ended 31 December 2000, 1999 and 1998, respectively.

Gas purchases and gas in storage (see Note 9) increased significantly in 2000, principally due to the purchase of 9 bcm of Turkmenistan gas from Itera LLC for RR 14,590.

Taxes other than on income consist of:

	Year ended 31 December		
	2000	1999	1998
Road users and housing fund taxes	24,143	21,926	25,492
Mineral use tax (royalty)	8,614	6,536	10,627
Property tax	4,956	4,639	7,350
Mineral restoration tax	4,327	3,397	5,570
Other taxes	4,805	4,146	4,871
	46,845	40,644	53,910

Taxes other than on income included in operating expenses are computed as follows:

- Road users and housing fund taxes—are charged on sales in Russia and vary by region and locality but generally in 2000 did not exceed 2.5% and 1.5%, respectively of sales in the respective region; from 1 January 2001 road use tax is 1 % of sales, housing tax is abolished.
- Mineral use tax is imposed at rates ranging from 6.0% to 16.0% of the sales value of gas and hydrocarbons produced. The actual rates of the tax are dictated in field licenses and are based on various factors;
- Property tax is imposed at a maximum rate of 2.0% on the average annual net book value of fixed assets, intangible assets and inventory. Legislation provides for the exclusion of trunk pipelines from the taxable base; and

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20 OPERATING EXPENSES—(Continued)

- Mineral restoration tax is imposed at the rate of 10.0% of the sales value of gas and hydrocarbons sold by the production subsidiaries. Under current legislation, up to 100.0% of mineral restoration tax assessments may be offset by a sum equal to the value of certain exploration works performed and paid for by the Group. The Group recovered 39.9% in 2000 and 34.0% in 1999 and 1998 of mineral restoration tax assessments.

All taxes and rates discussed above are calculated based on amounts recorded in accordance with Russian statutory accounting regulations.

21 PROFIT (LOSS) PER SHARE

Basic profit (loss) per share has been calculated by dividing the net profit (loss) for the year by the weighted average number of shares outstanding during the year. Diluted profit (loss) per share is the same as basic profit (loss) per share.

There were 20.9 billion, 21.1 billion and 21.4 billion weighted average shares outstanding for the years ended 31 December 2000, 1999 and 1998, respectively.

22 NET CASH PROVIDED BY OPERATING ACTIVITIES

	Year ended 31 December		
	2000	1999	1998
Profit (loss) before profit tax	175,873	26,410	(214,502)
Adjustments to net profit before profit tax			
Depreciation and depletion	80,216	71,930	69,609
Impairment provisions for investments, other long-term assets, property, plant and equipment and inventories	59,286	54,587	68,415
Net unrealised foreign exchange losses	6,776	48,121	238,417
Increase in provision for doubtful accounts	32,432	18,045	38,533
Interest expense	32,542	20,211	20,571
Discount recorded upon restructured taxes	(17,213)	—	
Loss on disposal of property, plant and equipment	11,866	12,057	12,123
Monetary effects on non-operating balances	(68,709)	(99,778)	(214,238)
Interest income	(13,018)	(14,796)	(12,183)
(Decrease) increase in provisions for liabilities and charges	(11,946)	(8,864)	53,567
Net decrease (increase) in long-term assets	10,369	(1,348)	(29,226)
Total effect of adjustments	122,601	100,165	245,588
Changes in working capital			
(Increase) decrease in accounts receivable and prepayments	(37,147)	13,081	46,076
(Increase) decrease in inventories	(13,524)	9,526	6,088
Decrease (increase) in other current assets	728	3,705	(4,264)
Increase (decrease) in accounts payable and accrued charges, excluding interest, dividends and capital construction	17,431	(14,531)	(8,389)
Decrease in taxes payable (other than profit tax)	(24,451)	(8,092)	(27,503)
(Increase) decrease in marketable securities	(2,488)	(5,432)	15,097
Non-cash additions to property, plant and equipment	(54,306)	(64,390)	(44,113)
Non-cash additions to investments	(6,453)	(13,303)	(3,539)
Total effect of working capital changes	(120,210)	(79,436)	(20,547)
Profit tax paid	(77,335)	(27,441)	(24,810)
Net cash provided by operating activities	100,929	19,698	(14,271)

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23 PRINCIPAL SUBSIDIARY UNDERTAKINGS

Subsidiary undertakings, 100% owned

Astrakhangazprom	Gazfund	Permtransgaz
Bashtransgaz	Gazexport	Samaratransgaz
Burgaz	Zarubezhgaz Erdgashandel GmbH (ZGG)	Severgazprom
VNIIgaz	Informgaz	Servicegazprom
Volgogradtransgaz	IRTs Gazprom	Liquified gas
Volgotransgaz	Kavkaztransgaz	Surgutgazprom
Gazkomplektimpex	Kaspygazprom	Tattransgaz
Gaznadzor	Kubangazprom	Tomsktransgaz
Gazobezopasnost	Lentransgaz	TyumenNIIgiprogaz
Gazpromavia	Mezhregiongaz	Tyumentransgaz
Gazprominvestholding	Mostransgaz	Ulianovskgazservice
Gazprom-Media	Nadymgazprom	Uraltransgaz
Gazprom Finance B.V.	Nadymstroygazdobytcha	Urengoygazprom
Gazsviaz	Novourengoysky GCC	Yugtransgaz
Gaztorgpromstroy	Noyabrskgazdobycha	Yamalgazinvest
Gazflot	Orenburggazprom	Yamburggazdobycha

All of these subsidiaries are incorporated in the Russian Federation, with the exception of Gazprom Finance B.V. and ZGG, which are incorporated in the Netherlands and Germany, respectively. Gazprom Finance B.V. was established in February 1999 for the purpose of obtaining financing for the Group outside Russia. ZGG acts as the holding company for the Group's interests in a number of gas distribution, storage and transportation companies operating in Central Europe. Other companies are mainly involved in production, transportation and sale of gas.

Other subsidiary undertakings

	Percent of share capital held at 31 December		
	2000	1999	1998
Volgogradneftemash	51	51	51
Vostokgazprom	63	70	—
Gazavtomatika	51	51	51
Gazprombank	97	93	89
Gazsibcontract	51	51	51
Gazenergoservice	51	51	51
Zapsibgazprom	34	51	51
Kostromatrubinvest	99	94	51
Lebedinsky GOK	57	57	11
National Reserve Bank	40	40	65
Spetsgazavtotrans	51	51	51

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

23 PRINCIPAL SUBSIDIARY UNDERTAKINGS (continued)

The Group's interest in the equity capital of National Reserve Bank is 40.2% and in OAO Zapsibgazprom is 33.9%. However, as the principal shareholder, the Group continues to exercise effective control over the activities of the above companies and they are still considered as subsidiaries.

In August 1999, the Group acquired 46.0% of the share capital of Lebedinsky GOK (LGOK), a mining and dressing company operating in the Russian Federation. This acquisition increased the total share of the Group in the share capital of LGOK to 57.0%. The acquisition was recorded under the purchase accounting method. The acquisition was funded by cash. No goodwill resulted from this transaction.

LGOK contributed revenues of RR 3,088 and net income of RR 220 to the Group for the period from August 1999 to 31 December 1999.

The assets and liabilities arising from acquisition are as follows:

Cash and cash equivalents	113
Receivables	2,030
Inventories	792
Other current assets	342
Property, plant and equipment (Note 10)	13,072
Investments	133
Current liabilities	(3,918)
Deferred tax (Note 16)	(1,176)
Non-current liabilities	(6,992)
Minority interest	(1,723)
Total purchase consideration	2,673
Less:	
Cash and cash equivalents acquired	(112)
11.0% interest acquired in 1998	(417)
Cash outflow on acquisition	2,144

The Group did not have significant acquisitions in 1998.

Minority interest

	Year ended 31 December		
	2000	1999	1998
Minority interest at the beginning of the reporting period	8,466	6,493	13,161
Minority interest share of net profit of subsidiary undertakings	1,730	251	(6,668)
Change in minority interest as a result of (disposal) acquisition	(256)	1,722	—
Minority interest at the end of reporting period	9,940	8,466	6,493

24 RELATED PARTIES

Related 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 ancial and operating decisions.

Government

The Government of the Russian Federation, the principal shareholder of the Group, owns approximately 38.37% of the issued shares of the Group. Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

24 RELATED PARTIES (continued)

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

In 2000 the Company paid to members of the Board of Directors and Management Committee remuneration (salary and bonuses) for the total amount of approximately RR 64. The remuneration of members of the Board of Directors is subject to approval by the General shareholders meeting. Compensation paid to members of the Management Committee is determined by the terms of annual employment contracts.

Other

Included within other long-term assets are USD denominated receivables from EuRoPolGaz s.a. in the amount of RR 13,828, RR 16,803 and RR 17,734 at 31 December 2000, 1999 and 1998, respectively. Included within associated undertakings (see Note 11) is an interest-bearing loan receivable from EuRoPolGaz s.a., in the amount of RR 26,742, RR 26,139 and RR 15,556 at 31 December 2000, 1999 and 1998, respectively, issued by Gazprombank, a subsidiary of the Group.

Also included within associated undertakings (see Note 11) is an interest-bearing loan receivable from WINGAS GmbH, in the amount of RR 14,784, RR 18,496 and RR 16,892 at 31 December 2000, 1999 and 1998, respectively. In determining the interest rates for related party financing, the Group follows a pricing policy which requires positive interest margins to be earned on all lendings to related parties.

Included within accounts receivable (see Note 8) are accounts receivable from Group associates (excluding EuRoPolGaz s.a.) in the amount of RR 19,382, RR 21,216 and RR 17,703 as at 31 December 2000, 31 December 1999 and 31 December 1998 respectively.

During 2000, 1999 and 1998 the Group supplied gas to its associates in the amount of RR 41,621, RR 26,584 and RR 36,713, respectively.

Gas is sold to associates, except for that sold to ZAO Gazsnabtransit of Moldova, on the basis of long-term contracts, at market prices based on world oil and gas prices. Gas prices per thousand cubic meters ("tcm") for such sales ranged from USD 64 to USD 133 in 2000, from USD 50 to USD 84 in 1999 and from USD 63 to USD 87 in 1998. Gas is sold to ZAO Gazsnabtransit based on annual contracts with fixed prices. Prices of gas per tcm sold to Moldova amounted to USD 80, USD 60 and USD 58 in 2000, 1999 and 1998, respectively.

Amounts due from ZAO Gazsnabtransit at the reporting date are presented net of a bad debt provision of RR 13,537.

In addition, the Group purchased gas transportation services from certain of the associated undertakings, principally EuRoPolGaz s.a., which amounted to RR 7,002, RR 551 and RR 141 for 2000, 1999 and 1998, respectively. The cost of these services was determined based on prices of gas sold to these companies.

In the normal course of business, the Group enters into transactions with OAO Stroytransgaz for the construction of pipelines in the Russian Federation on the basis of the results of tenders. During 2000, 1999 and 1998 certain representatives of the Group Board of Directors and members of their families owned significant shareholdings in OAO Stroytransgaz.

OAO Stroytransgaz rendered constructions services for the Group in the amounts of RR 27,017, RR 22,817 and RR 4,562 for the years ended 31 December 2000, 1999 and 1998, respectively. As at 31 December 2000, 1999 and 1998, the Group had advances and receivables due from OAO

24 RELATED PARTIES (continued)

Stroytransgaz in the amounts of RR 1,935, RR 790 and RR 2,035, respectively. As at 31 December 2000, 1999 and 1998, the Group had accounts payable to OAO Stroytransgaz in respect of construction of RR 10,393, RR 5,642 and RR 706 respectively. As at 31 December 2000 and 1999, Gazprombank, the Group's principal banking subsidiary, had loans receivable from OAO Stroytransgaz of RR 1,171 and RR 220, respectively. Included within other long-term assets is a receivable due from OAO Stroytransgaz in connection with finance arrangements for construction for the Group undertaken by OAO Stroytransgaz in the amounts of RR 6,667, RR 9,802 and RR 5,771 at 31 December 2000, 1999 and 1998, respectively.

During 2000, 1999 and 1998 certain members of the families of certain members of the Board of Directors of the Company owned significant 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 5,263, RR 4,072 and RR 2,448 of equipment in the years ended 31 December 2000, 1999 and 1998, respectively. As at 31 December 2000 and 1998, the Group had advances and receivables due from OOO Interprokom in the amount of RR 2,793 and RR 733, respectively. As at 31 December 1999 the Group had payables to OOO Interprokom in the amount of RR 2,983. Commission paid to OOO Interprokom amounted to RR 70, RR 26 and RR 11 for the years ended 31 December 2000, 1999 and 1998, respectively.

Gazprombank, the Group's principal banking subsidiary, had outstanding import letters of credit issued on behalf of OOO Interprokom and sub-contractors of OOO Interprokom in the amount of RR 9,246, RR 5,333 and RR 4,029 at 31 December 2000, 1999 and 1998, respectively. These import letters of credit are issued to third party suppliers in connection with the purchase of equipment by OOO Interprokom on behalf of the Group.

During 2000, a member of the Council of Gazprombank acquired from that bank an 8.5% interest in AEB for RR 244. AEB is an associated undertaking of the Group at 31 December 2000 (see Note 11). A loss of RR 199 was recognized under IAS on the disposal. This loss was the result of a decrease in the Group's share in the net assets of AEB and translation differences recognised on the disposed shares.

25 COMMITMENTS AND CONTINGENT LIABILITIES

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

At 31 December 2000, RR 6,160 of assets of one of the Group's banking subsidiaries were the subject of a legal restraint in connection with a claim arising from derivative transactions with a foreign counterparty. At 31 December 2000, the Group had provided RR 3,842 against the claim (see Note 17).

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

25 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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

Tax legislation in the Russian Federation is subject to varying interpretations and frequent changes. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest, which can be significant. The Group's tax records remain open to review by the tax and customs authorities with respect to tax liabilities for three years.

Group changes

The Group is continuing to undergo significant restructuring and reform initiatives and the future direction and effects of such reforms are the subject of political considerations. Potential reforms in 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 Group has operated in the gas exploration, extraction and transportation industry in the Russian Federation for many years. The normal activities of the Group have probably resulted in damage to the environment. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Expenditures that extend the life of the related property or mitigate or prevent future environmental contamination are capitalised. Potential liabilities which might arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation or regulation cannot be estimated, but could be material. In the current enforcement climate, under existing legislation, 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, including contributions toward the construction, development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which it operates.

Financial guarantees

The Group had outstanding issued guarantees to third parties in the amount of RR 56,979, RR 63,127 and RR 70,325 (including guarantees denominated in USD of USD 1,659 million, USD 1,700 million and USD 1,819 million) at 31 December 2000, 1999 and 1998, respectively.

Management believes that the Group will be required to settle certain of the obligations resulting from the guarantees. A provision of RR 9,938, RR 18,691 and RR 24,333 has been recorded within provisions for liabilities and charges in respect of the guarantees issued at 31 December 2000, 1999 and 1998, respectively. It is anticipated that the majority of the provision will be used during 2001.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

25 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

		31 December		
Notes		2000	1999	1998
	Guarantees issued on behalf of:			
	Interconnector (UK) Limited	32,123	36,999	38,652
11	ZAO Media-Most	8,399	17,503	14,083
	Itera Group companies	5,392	3,597	1,274
	AK Sibur	5,181	—	—
	FK Gaztrust	—	—	10,401
	Other	5,884	5,028	5,915
		56,979	63,127	70,325
17	Less: provisions for guarantees	(9,938)	(18,691)	(24,333)
		47,041	44,436	45,992

The guarantee issued on behalf of Interconnector (UK) Limited, in which the Group has a 10% interest, was provided to a third party financing company in connection with lease obligations of Interconnector (UK) Limited.

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 2001 of RR 110,752, including RR 49,242 in respect of capital expenditures related to the Yamal project (that includes, in particular, construction of the Yamal-Europe pipeline).

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. At 31 December 2000, no loss is expected to result from these long-term commitments.

26 FINANCIAL INSTRUMENTS

Financial risk management

The Group exports gas to European countries and attracts substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets (see Note 8) and liabilities (see Note 15) together with long-term sales commitments to European countries (see Note 25) give rise to foreign exchange exposure.

The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings (see Note 15).

The Group does not have formal hedging arrangements to mitigate interest rate risks or foreign exchange risks of the Group's operations. However, on a long-term perspective management believes that the Group is secured from financial risks; foreign currency denominated sales are secured by long-term contracts to supply gas to European countries and the revenue from such contracts is used to cover repayment of foreign currency denominated borrowings.

Fair values

The fair value of financial instruments is determined with reference to various market information and other valuation methods as considered appropriate. At 31 December 2000, 1999 and 1998, the

26 FINANCIAL INSTRUMENTS (continued)

fair values of financial instruments other than long-term investments, trade receivables and trade payables are held by the Group did not materially differ from their carrying value. The historical cost carrying amount of receivables and payables subject to normal trade credit terms approximates their fair value. Management does not believe it is practicable to estimate the fair value of long-term investments, other trade receivables and trade payables. These financial instruments are not traded at financial market and an objective estimate of fair value is not, therefore, available. Information on the fair values of off-balance sheet derivative instruments is included below.

Credit risks

Financial instruments, which potentially subject the Group to concentrations of credit risk primarily consist of accounts receivables. Credit risks related to accounts receivable are systematically monitored and are considered when bad debt provisions are established. 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 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 doubtful accounts has already been made.

Cash is placed in financial institutions which are considered at time of deposit to have minimal risk of default.

Off-balance sheet derivative instruments

At 31 December 2000, the Group had outstanding contracts with banks operating in the Russian Federation and foreign banks, whereby it had agreed to buy or sell Roubles in exchange for another currency at an exchange rate agreed at the date of the contract. Management believes that it is possible that contracts between banks operating in the Russian Federation may become void or other remedial measures may eventually become available. In the event the outstanding contracts are declared void or settled at an amount different than the amount stipulated in the contract, the losses and gains would be adjusted and the difference would be recognised in the consolidated statement of operations in the period that the settlement occurs.

Foreign exchange off-balance sheet financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. At 31 December 2000 the Group had outstanding contracts to purchase gold at the market price at the date of maturity and to purchase securities under contractual prices. The Group expects to settle these deals in the normal course of business. There were no outstanding contracts for precious metals or securities at 31 December 1999 and 1998.

The nominal amounts for off-balance sheet financial instruments are not reflected in the consolidated balance sheet.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

26 FINANCIAL INSTRUMENTS (continued)

The following table provides an analysis of the principal or agreed amounts of contracts outstanding at the year-end and the associated losses or gains arising thereon. The table includes both the contracts for which the date of maturity has past due and no settlements had been completed as at 31 December 2000, and the contracts with maturity dates subsequent to 31 December 2000. The amounts included in the table are presented on a net basis after gross positions were grouped and netted off by counterparty.

	Domestic			Foreign		
	Principal or agreed amount	Loss	Gain	Principal or agreed amount	Loss	Gain
Deliverable forward currency	4,378	—	187	452	—	—
Deliverable forward gold deals	1,070	—	—	—	—	—
Deliverable forward securities deals	—	—	—	345	(1)	—
Index forward currency	58,753	(9,338)	4,362	—	—	—
Purchase of foreign currency option	7,546	—	1,798	—	—	—
Written foreign currency option	—	—	—	9,730	(3,842)	—
Total gross position	71,747	(9,338)	6,347	10,527	(3,843)	—

The economic conditions in the Russian Federation have had a significant adverse effect on the ability of many banks operating principally in the Russian Federation to fulfil their contractual obligations. Accordingly, management has not recorded the receivable and above noted gains based on the evaluation of the credit worthiness of the counterparties.

27 POST BALANCE SHEET EVENTS

In January 2001 OAO Gazprom purchased an interest of 51% in the voting shares of AK Sibur. AK Sibur is a leading Russian company selling oil, gas and chemical products. The consideration of RR 2,514 million was settled in a combination of cash, promissory notes of a subsidiary of the Group and shares in certain Group entities. The process of determining the fair values of assets and liabilities acquired has not yet been finalised and therefore, it is not practical to disclose this information. AK Sibur will be consolidated in the financial statements for the year ended 31 December 2001.

In January 2001 the Board of Directors of OAO Gazprom initiated an investigation into the financial, property, commercial and operational relationships between OAO Gazprom and the Itera Group of companies. The accompanying notes to the consolidated financial reports do not reflect any results of this investigation, which is ongoing.

During 2000 OAO Gazprom signed agreements with a consortium of West European banks and with Japanese banks on obtaining loans to finance OAO Gazprom's interest in the Blue Stream project. The first tranche under these agreements of USD 117 was received in the second quarter of 2001. In addition, during the first quarter of 2001 a loan in the amount of Euro 250 million was provided by a consortium of West European banks.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

28 ADJUSTMENTS FOR HYPERINFLATION

In accordance with IAS 29 the consolidated financial statements as of and for the years ended 31 December 2000 and 1999 were originally prepared in terms of the measuring unit current at the balance sheet date. The restatement was calculated from the conversion factors derived from the Russian Federation Consumer Price Index, published by the Russian State Committee on Statistics ("Goscomstat"), and from indices obtained from other published sources for years prior to 1992.

The significant guidelines followed in restating the consolidated financial statements are:

- all amounts are stated in terms of the measuring unit current at 31 December 2000;
- monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 2000;
- non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at 31 December 2000) and shareholders' equity, including the share capital, are restated by applying the relevant conversion factors;
- all items in the consolidated statements of operations and of cash flows are restated by applying appropriate conversion factors;
- the effect of inflation on the Group's net monetary position is included in the consolidated statement of operations as a net monetary gain or loss; and
- comparative amounts for 1999 and 1998 are restated using the conversion factors 1.2 and 1.6 respectively in order to state them in terms of the measuring unit current at 31 December 2000.

All amounts originally stated in the consolidated financial statements in terms of the measuring unit current at the balance sheet date have been subsequently restated using the conversion factor of 1.1 in order to state them in terms of the monetary unit current at 30 September 2001. The restatement makes the consolidated financial statements more meaningful when compared to the interim consolidated financial statements for the nine months ended 30 September 2001.

The indices used to restate the consolidated financial statements, based on 1988 prices (1988=100) for the five years ended 31 December 2000 and period ended 30 September 2001, and the respective conversion factors used were:

	Index	Conversion Factor to 31 December 2000	Conversion Factor to 30 September 2001
31 December 1996	594,110	3.4	3.8
31 December 1997	659,403	3.0	3.5
31 December 1998	1,216,400	1.6	1.9
31 December 1999	1,661,481	1.2	1.4
31 December 2000	1,995,937	1.0	1.1
30 September 2001	2,276,965	—	1.0

The consolidated statement of operations includes net monetary gains of RR 46,647, RR 70,220 and RR 117,771 for the years ended 31 December 2000, 1999 and 1998, respectively, because on average the Group had net monetary liabilities in reporting years.

OAO GAZPROM

INVESTOR RELATIONS

The Company may be contacted at its registered office:

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OAO GAZPROM

IAS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

30 September 2001

ZAO PricewaterhouseCoopers Audit
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REVIEW REPORT

To the Shareholders of OAO Gazprom

1. We have reviewed the accompanying consolidated interim condensed balance sheet of OAO Gazprom and its subsidiaries and associates (the "Group") as at 30 September 2001, and the related consolidated interim condensed statements of operations for the three and nine months then ended, and the related consolidated condensed statements of cash flows and of changes in shareholders' equity for the nine months then ended. This consolidated interim condensed financial information is the responsibility of the Group's management. Our responsibility is to issue a report on this consolidated interim condensed financial information based on our review.

2. We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the consolidated interim condensed financial information is free of material misstatement. A review is limited primarily to inquiries of Group personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial information has not been properly prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

4. Without qualifying the results of our review, we draw your attention to Note 22 to the consolidated interim condensed financial information. 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 January 2002

OAO GAZPROM

IAS CONSOLIDATED INTERIM BALANCE SHEET (UNAUDITED)
(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001)

Notes		30 September 2001	31 December 2000
	ASSETS		
	Current assets		
6	Cash and cash equivalents	12,792	16,545
7	Investments	24,542	27,351
8	Accounts receivable and prepayments	276,369	280,767
9	Inventories	79,425	67,530
	Other current assets	48,280	42,349
		441,408	434,542
	Long-term assets		
10	Property, plant and equipment	1,470,683	1,461,708
11	Investments	94,982	88,453
14	Deferred tax assets	47,369	111,853
	Other long-term assets	43,431	48,784
		1,656,465	1,710,798
	Total assets	2,097,873	2,145,340
	LIABILITIES AND EQUITY		
	Current liabilities		
	Accounts payable and accrued charges	112,710	97,210
	Taxes payable	76,413	130,603
	Short-term loans and current portion of long-term borrowings	132,901	127,650
	Short-term promissory notes payable	61,728	65,676
17	Provisions for liabilities and charges	—	9,939
		383,752	431,078
	Long-term liabilities		
13	Long-term borrowings	185,481	233,710
	Long-term promissory notes payable	21,981	7,058
12	Restructured tax liabilities	19,142	10,100
17	Provisions for liabilities and charges	16,488	15,011
	Other long-term liabilities	11,778	13,436
		254,870	279,315
	Total liabilities	638,622	710,393
	Minority interest in subsidiaries	11,134	9,942
15	**Shareholders' equity**		
	Share capital	271,214	271,214
	Treasury shares	(10,222)	(11,021)
	Retained earnings and other reserves	1,187,125	1,164,812
		1,448,117	1,425,005
	Total liabilities and equity	2,097,873	2,145,340

A.B. Miller
Chairman of the Management Committee
30 January 2002

E.A. Vasilieva
Chief Accountant
30 January 2002

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

OAO GAZPROM

IAS CONSOLIDATED INTERIM CONDENSED STATEMENT OF OPERATIONS (UNAUDITED)
(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001)

		Three months ended 30 September		Nine months ended 30 September	
Notes		**2001**	**2000**	**2001**	**2000**
5, 18	Sales	116,726	123,040	443,707	432,985
	Share of net income (losses) of associated undertakings	965	(49)	2,419	(608)
5	Operating expenses	(82,997)	(97,549)	(282,746)	(318,423)
5	**Operating profit**	**34,694**	**25,442**	**163,380**	**113,954**
	Net finance costs	5,437	(2,620)	(15,209)	(24,993)
16	Gains (losses) on available-for-sale investments	(4,789)	2,078	(2,437)	(490)
	Income before gain on net monetary position, profit tax and minority interest	**35,342**	**24,900**	**145,734**	**88,471**
3	Monetary gain	4,415	16,893	23,042	41,971
	Profit before profit tax	**39,757**	**41,793**	**168,776**	**130,442**
	Current profit tax expense	(14,676)	(21,608)	(73,521)	(57,564)
	Deferred profit tax expense	(3,620)	(7,082)	(64,484)	(34,772)
14	Profit tax expense	(18,296)	(28,690)	(138,005)	(92,336)
	Profit after profit tax	**21,461**	**13,103**	**30,771**	**38,106**
	Minority interest	805	71	1,578	273
	Net profit	**22,266**	**13,174**	**32,349**	**38,379**
19	**Basic earnings per share (in Roubles)**	**1.06**	**0.63**	**1.54**	**1.82**

A.B. Miller
Chairman of the Management Committee
30 January 2002

E.A. Vasilieva
Chief Accountant
30 January 2002

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

OAO GAZPROM

IAS CONSOLDIATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001)

Note		Nine months ended 30 September 2001	Nine months ended 30 September 2000
	Net cash provided by operating activities	82,509	51,266
	Net cash used for investing activities	(32,092)	(35,994)
	Net cash used for financing activities	(50,333)	(4,336)
	Effect of exchange rate changes on cash and cash equivalents	(1,861)	1,027
	Effect of inflation accounting on cash	(1,976)	(4,631)
	Increase (decrease) in cash and cash equivalents	(3,753)	7,332
6	Cash and cash equivalents, at beginning of reporting period	16,545	17,614
6	**Cash and cash equivalents, at end of reporting period**	12,792	24,946

A.B. Miller
Chairman of the Management Committee
30 January 2002

E.A. Vasilieva
Chief Accountant
30 January 2002

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

OAO GAZPROM

IAS CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001)

Notes		Number of shares outstanding (billions)	Share capital	Treasury shares	Retained earnings and other reserves	Total shareholders' equity
	For the nine months ended 30 September 2001					
	Balance at 31 December 2000 ...	21.0	271,214	(11,021)	1,164,288	1,424,481
16	Effect of adoption of IAS 39	—	—	—	524	524
	Adjusted balance at 31 December 2000	21.0	271,214	(11,021)	1,164,812	1,425,005
	Net income for the period	—	—	—	32,349	32,349
	Net treasury share transactions ...	(0.1)	—	799	178	977
	Translation differences...........	—	—	—	(1,337)	(1,337)
	Return of social assets to governmental authorities	—	—	—	(3,284)	(3,284)
15	Dividends	—	—	—	(5,593)	(5,593)
	Balance at 30 September 2001...	20.9	271,214	(10,222)	1,187,125	1,448,117
	For the nine months ended 30 September 2000					
	Balance at 31 December 1999 ...	21.1	271,214	(7,265)	844,737	1,108,686
	Net income for the period	—	—	—	38,379	38,379
	Net treasury share transactions ...	—	—	(53)	201	148
	Translation differences...........	—	—	—	1,143	1,143
	Return of social assets to governmental authorities	—	—	—	(3,554)	(3,554)
15	Dividends	—	—	—	(4,122)	(4,122)
	Balance at 30 September 2000...	21.1	271,214	(7,318)	876,784	1,140,680

A.B. Miller
Chairman of the Management Committee
30 January 2002

E.A. Vasilieva
Chief Accountant
30 January 2002

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

1 NATURE OF OPERATIONS

RAO Gazprom was established as a Russian joint stock company by Presidential Decree No. 1333 dated 5 November 1992. The Annual General Meeting of shareholders, held on 26 June 1998, approved a recommendation from the Board of Directors on revising the name of the Company in order to comply with the federal law on joint stock companies. Consequently, the Company became the open joint stock company Gazprom or OAO Gazprom.

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

The Group is directly 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 gas business is subject to seasonal fluctuations. The volumes of gas shipped during the third quarter and the first nine months of the year represent, on average, approximately 16% and 71% of annual volumes shipped to customers, respectively.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of:

- a currency that is not freely convertible outside of the country;
- extensive currency controls;
- a low level of liquidity in the public and private debt and equity markets; and
- high inflation.

Transactions on the Russian stock exchange market are influenced by underdeveloped infrastructure, especially registration and settlement systems which are in the process of formation as well as regulation basis.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

3 BASIS OF PRESENTATION

These financial statements are prepared in compliance with International Accounting Standard 34 "Interim Financial Reporting". The Group subsidiaries and associated undertakings 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 financial statements of the Group's subsidiaries and associated undertakings resident in the Russian Federation, which account for substantially all the assets and liabilities of the Group, are based on their statutory records, which are maintained under the historical cost convention with adjustments and reclassifications recorded in the financial statements for the purpose of fair presentation in accordance with IAS. Similar adjustments are recorded in the financial statements in respect of Group companies not resident in the Russian Federation.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001)

The preparation of consolidated financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

The adjustments and reclassifications made to the statutory accounts for the purpose of IAS reporting include the restatement for changes in the general purchasing power of the Russian Rouble ("RR") in accordance with IAS 29, "Financial Reporting in Hyperinflationary Economies" ("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 was calculated from the conversion factors derived from the Russian Federation Consumer Price Index, published by the Russian State Committee on Statistics ("Goscomstat"), and from indices obtained from other published sources for years prior to 1992.

The indices used to restate the consolidated financial statements, based on 1988 prices (1988=100) for the sixty-nine months ended 30 September 2001, and the respective conversion factors used are:

Year	Index	Conversion Factor
31 December 1996	594,110	3.8
31 December 1997	659,403	3.5
31 December 1998	1,216,400	1.9
31 December 1999	1,661,481	1.4
30 September 2000	1,895,584	1.2
31 December 2000	1,995,937	1.1
30 September 2001	2,276,965	1.0

The significant guidelines followed in restating the consolidated financial statements are:

- all amounts are stated in terms of the measuring unit current at 30 September 2001;
- monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 30 September 2001;
- non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at 30 September 2001) and shareholders' equity, including the share capital, are restated by applying the relevant conversion factors;
- all items in the consolidated statements of operations and of cash flows are restated by applying appropriate conversion factors;
- the effect of inflation on the Group's net monetary position is included in the consolidated statement of operations as a net monetary gain or loss; and
- comparative amounts for the first nine months of 2000 and for the 2000 consolidated financial statements are restated using the conversion factors of 1.2 and 1.1, respectively, in order to state them in terms of the monetary unit current at 30 September 2001.

The consolidated statement of operations includes net monetary gains of RR 23,042 and RR 41,971 for the periods ended 30 September 2001 and 2000, respectively, because on average the Group had net monetary liabilities in both years.

The US dollar to RR exchange rates were 29.39 and 28.16 at 30 September 2001 and 31 December 2000, respectively. The Euro to RR exchange rates were 26.86 and 26.14 at 30 September 2001 and 31 December 2000, respectively.

Reclassifications

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Group are consistent with those disclosed in the financial statements for the year ended 31 December 2000.

Changes in accounting policies related to the nine months ended 30 September 2001 are disclosed below.

Financial instruments

The Group adopted IAS 39 "Financial Instruments: Recognition and Measurement" at 1 January 2001. The financial effects of adopting IAS 39 are displayed in Note 16.

The effects of IAS 39 on investments and accounting for derivative financial instruments are disclosed in the accounting policies below.

Investments

At 1 January 2001 the Group adopted IAS 39 and 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 has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets; during the period the Group did not hold any investments in this category. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in fair value, are classified as available-for-sale. These are included in non-current assets unless management has the expressed intention of holding the investments for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognized on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently re-measured to fair value. Realized and unrealised gains and losses arising from changes in the fair value of trading and available-for-sale investments are included in the income statement 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.

In the cash flow statement, purchases and sales of trading investments are presented within the section on operating activities as part of changes in working capital.

in the income statement, changes in fair values of trading investments are recorded in other operating expenses.

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 minimize 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, 22), 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 Euros.

- 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. Credit risks related to accounts receivable are systematically monitored and are considered when doubtful debt 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 doubtful accounts has already been made.

The Group does not have formal hedging arrangements to mitigate interest rate risks or foreign exchange risks of the Group's operations.

The Group does not apply hedge accounting in preparation of financial statements.

Fair value estimation

The fair value of publicly traded derivatives and trading and available-for-sale securities is based on quoted market prices at the balance sheet date.

The fair value of unquoted financial instruments is estimated from the future cash flows expected from both the periodic income generated by the investments and from their disposal, discounted by a rate that reflects the risk inherent in the investment.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001)

Quoted market prices or dealer quotes for the specific or similar instruments are used for fair value estimation of long-term debt. Other techniques, such as estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

The face values, less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year, are assumed to approximate their fair values. The fair value of financial liabilities 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.

5 SEGMENT INFORMATION

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

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

	Production	Refining	Transport	Distribution	Other	Total
Nine months ended 30 September 2001						
Segment revenues						
Inter-segment sales	47,349	9,534	112,449	7,308	—	176,640
External sales	1,206	46,293	11,163	364,773	20,272	443,707
Total segment revenues	48,555	55,827	123,612	372,081	20,272	620,347
Segment expenses						
Inter-segment expenses	(1,421)	(7,956)	(10,386)	(156,877)	—	(176,640)
External expenses	(41,065)	(40,826)	(77,459)	(102,762)	(17,195)	(279,307)
Total segment expenses	(42,486)	(48,782)	(87,845)	(259,639)	(17,195)	(455,947)
Segment result	6,069	7,045	35,767	112,442	3,077	164,400
Unallocated operating expenses						(3,439)
Share of net income of associated undertakings	—	—	508	1,311	600	2,419
Operating profit						163,380
Nine months ended 30 September 2000						
Segment revenues						
Inter-segment sales	36,026	8,120	79,615	5,001	—	128,762
External sales	6,154	22,094	22,679	362,418	19,640	432,985
Total segment revenues	42,180	30,214	102,294	367,419	19,640	561,747

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001, except as noted)

5 SEGMENT INFORMATION (continued)

	Production	Refining	Transport	Distribution	Other	Total
Segment expenses						
Inter-segment expenses	(853)	(4,371)	(6,762)	(116,776)	—	(128,762)
External expenses	(44,548)	(17,145)	(83,119)	(135,985)	(25,798)	(306,595)
Total segment expenses	(45,401)	(21,516)	(89,881)	(252,761)	(25,798)	(435,357)
Segment result	(3,221)	8,698	12,413	114,658	(6,158)	126,390
Unallocated operating expenses						(11,828)
Share of net (losses) income of associated undertakings	—	—	(767)	233	(74)	(608)
Operating profit						**113,954**
Three months ended 30 September 2001						
Segment revenues						
Inter-segment sales	18,757	2,019	35,731	3,360	—	59,867
External sales	270	15,317	4,814	90,841	5,484	116,726
Total segment revenues	19,027	17,336	40,545	94,201	5,484	176,593
Segment expenses						
Inter-segment expenses	(91)	(4,033)	(3,311)	(52,432)	—	(59,867)
External expenses	(14,082)	(13,962)	(29,532)	(24,849)	(5,749)	(88,174)
Total segment expenses	(14,173)	(17,995)	(32,843)	(77,281)	(5,749)	(148,041)
Segment result	4,854	(659)	7,702	16,920	(265)	28,552
Unallocated operating expenses						5,177
Share of net income of associated undertakings	—	—	203	522	240	965
Operating profit						**34,694**
Three months ended 30 September 2000						
Segment revenues						
Inter-segment sales	12,030	2,731	23,458	1,435	—	39,654
External sales	2,320	7,461	6,038	101,736	5,485	123,040
Total segment revenues	14,350	10,192	29,496	103,171	5,485	162,694
Segment expenses						
Inter-segment expenses	(403)	(1,833)	(2,024)	(35,394)	—	(39,654)
External expenses	(12,968)	(4,670)	(27,805)	(35,970)	(8,897)	(90,310)
Total segment expenses	(13,371)	(6,503)	(29,829)	(71,364)	(8,897)	(129,964)
Segment result	979	3,689	(333)	31,807	(3,412)	32,730
Unallocated operating expenses						(7,239)
Share of net (losses) income of associated undertakings	—	—	(62)	19	(6)	(49)
Operating profit						**25,442**

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001)

6 CASH AND CASH EQUIVALENTS

Balances included within cash and cash equivalents in the consolidated balance sheet represent cash in hand and balances with banks. Included within other current assets are balances of cash and cash equivalents totalling RR 42,478 and RR 36,303 at 30 September 2001 and 31 December 2000, respectively, which are restricted as to withdrawal under the terms of certain borrowings. In addition, other current assets include balances of cash RR 5,628 and RR 5,693 at 30 September 2001 and 31 December 2000, respectively, which are restricted in subsidiary banks as to withdrawal under banking regulations.

7 SHORT-TERM INVESTMENTS

	30 September 2001	31 December 2000
Trading investments	14,042	15,312
Available-for-sale investments	10,500	12,039
	24,542	27,351

Trading investments comprise primarily marketable equity and debt securities held by the Group's banks with a view to generating short-term profits. These investments are traded in active markets and are valued at market at the close of business on reporting date by reference to stock exchange quoted bid prices.

Available-for-sale investments comprise primarily promissory notes of third parties held by the Group entities and maturing within twelve months of the balance sheet date or other debt and equity securities intended for sale within the same period.

8 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 September 2001	31 December 2000
Trade receivables	193,958	193,770
Prepayments and advances paid	33,930	30,781
Other receivables	48,481	56,216
	276,369	280,767

Accounts receivable and prepayments are presented net of a provision for impairment of RR 88,428 and RR 103,149 at 30 September 2001 and 31 December 2000, respectively.

9 INVENTORIES

Inventories are presented net of a provision for obsolescence of RR 13,582 and RR 13,767 at 30 September 2001 and 31 December 2000, respectively.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001)

10. PROPERTY, PLANT AND EQUIPMENT

	Total operating assets	Social assets	Assets under constructions	Total
For the nine months ended 30 September 2001				
Net book value at 31 December 2000	1,136,912	89,608	235,188	1,461,708
D,D&A	(56,827)	(1,490)	—	(58,317)
Additions	12,296	1,073	74,653	88,022
Disposals	(13,661)	(3,654)	(3,415)	(20,730)
Net book value at 30 September 2001	1,078,720	85,537	306,426	1,470,683
At 30 September 2001				
Restated cost	2,238,821	109,469	306,426	2,654,716
Accumulated D,D&A	(1,160,101)	(23,932)	—	(1,184,033)
Net book value at 30 September 2001	1,078,720	85,537	306,426	1,470,683

Assets under construction are presented net of a provision for impairment of RR 80,025 at 30 September 2001 and 31 December 2000.

Included in additions above is capitalised interest of RR 10,421 for the period ended 30 September 2001.

11. LONG-TERM INVESTMENTS

Notes		30 September 2001	31 December 2000
	Associated undertakings:		
22	EuRoPolGaz s.a.	26,517	27,123
22	WINGAS GmbH	16,347	19,636
	Other	15,861	11,390
		58,725	58,149
	Other investments:		
	South Pars joint venture	17,227	13,281
	Other joint ventures	1,803	2,180
	Available-for-sale investments	17,227	14,843
		36,257	30,304
		94,982	88,453

Associated undertakings are presented net of provision for impairment of RR 6,253 and RR 6,858 at 30 September 2001 and 31 December 2000, respectively.

Included within associated undertakings is the Group's investment in Blue Stream Pipeline Company B.V. (see Note 21).

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001)

12. RESTRUCTURED TAX LIABILITIES

During 2001 the Group additionally negotiated the restructuring of its tax liabilities in accordance with current tax regulations.

The long-term portion of the restructured tax and penalties liability has the following maturity profile:

	30 September 2001	31 December 2000
Due for repayment:	54,263	27,314
Between one and two years	6,304	2,594
Between two and five years	14,623	7,770
After five years	33,336	16,950
Less: discount recorded upon restructured taxes	(35,121)	(17,214)
	19,142	10,100

The discount recorded upon restructured taxes is disclosed in the statements of operations as a part of net finance costs in the amount of RR 20,860 and RR 20,031 for three and nine months ended 30 September 2001 respectively.

13 LONG-TERM BORROWINGS

	Currency	Due	30 September 2001	31 December 2000
Long-term borrowings payable to:				
A French banking consortium	US dollar	2001-2005	77,559	91,111
A German banking consortium	US dollar	2001-2005	49,761	68,900
An Italian banking consortium	US dollar	2001-2007	27,517	36,794
A German consortium	Euro	2001-2008	18,710	20,435
An International banking consortium	Euro	2001-2007	15,894	14,463
A German banking consortium	Deutsche mark	2001-2007	9,528	11,262
A German bank consortium	Deutsche mark	2001-2003	5,558	7,729
A Cyprus banking consortium	US dollar	2001-2006	6,822	8,689
Hypo Vereins Bank	Euro	2001-2006	6,791	—
Fuji Bank	US dollar	2003-2010	4,047	—
Other long-term borrowings			15,361	27,609
Total long-term borrowings			237,548	286,992
Less: current portion of long-term borrowings			(52,067)	(53,282)
			185,481	233,710

Due for repayment:	30 September 2001	31 December 2000
Between one and two years	58,733	60,705
Between two and five years	108,022	142,846
After five years	18,726	30,159
	185,481	233,710

The loan payable to an Italian banking consortium is a fixed rate loan and had a fair value of RR 24,434 and RR 32,344 at 30 September 2001 and 31 December 2000, respectively. All other loans are variable rate loans and the carrying amounts approximate fair value.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001)

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

Other long-term borrowings include RR 2,821 and RR 3,085 at 30 September 2001 and 31 December 2000, respectively, of coupon non-documentary bearer bonds issued by OAO Gazprom in 1999. The issue amounted to 3.0 million bonds, each with a nominal value of RR 1,000 and a due date of 15 April 2003. During the years 2000 and 2001, the Group repurchased 577,277 bonds. The total liability recorded in respect of the bonds excludes the unamortised discount related to future periods.

14. PROFIT TAX

The Group accrues profit tax at the rate of 35% and 43% on profits from non-banking and banking activities, correspondingly, computed in accordance with the Russian tax legislation. The tax rates applied were enacted on 1 January 2001.

In August 2001 Profit tax chapter of the Tax Code was enacted, which introduced a new profit tax rate of 24% for non-banking and banking activities. This rate will become effective starting from 1 January 2002.

Differences between the recognition criteria in Russian statutory taxation regulations and IAS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24%, 35% or 43%, as appropriate.

The partial reversal of the deferred tax asset during the three month and nine month periods ended 30 September 2001 of RR 3,620 and RR 64,484, respectively, is mostly due to the impact of inflation eroding the tax-deductible value of the Group's property, plant and equipment.

	30 September 2001	Differrences recognition and reversals	Effect of changes in tax rules	31 December 2000
Tax effects of taxable temporary differences:				
Accounts receivable	(11,649)	12,981	5,339	(29,969)
Inventories	(1,099)	2,381	503	(3,983)
Investments	(1,047)	(625)	480	(902)
Tax effects of deductible temporary differences:				
Property, plant and equipment	44,850	(77,279)	(20,556)	142,685
Provision for doubtful accounts	16,314	(2,339)	14,631	4,022
Total net deferred tax asset (liability)	**47,369**	**(64,881)**	**397**	**111,853**

15. SHAREHOLDERS' EQUITY

Share capital

Share capital authorised, issued and paid in totals RR 271,214 at 30 September 2001 and 31 December 2000 and consists of 23.7 billion ordinary shares, each with a historical par value of RR5.

Dividends

During the first nine months of 2001, the Group accrued and paid final dividends for the year ended 31 December 2000 in the amount of RR 0.23 per share.

Treasury shares

At 30 September 2001 and 31 December 2000, subsidiaries of OAO Gazprom held 2,729 million and 2,684 million, respectively, of the ordinary shares of OAO Gazprom. The Group controls the voting rights for those shares.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001)

16 FINANCIAL INSTRUMENTS

The Group adopted IAS 39 at 1 January 2001. The impact on shareholders' equity at 1 January 2001 is shown below. In accordance with IAS 39, the comparative financial statements for the year ended 31 December 2000 are not restated.

In accordance with the transitional requirements of IAS 39, the Group recorded a net gain of RR 524 in retained earnings for the remeasurement of available-for-sale securities stated at fair value as at 1 January 2001.

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

	Nine months ended 30 September 2001
Unrealised fair value losses	(10,263)
Realised gains on sale	7,826
Total losses on available-for-sale investments	**(2,437)**

17 PROVISIONS FOR LIABILITIES AND CHARGES

Notes		30 September 2001	31 December 2000
	Provision for pension liabilities	5,444	5,444
	Provision for environmental liabilities	5,099	5,099
21	Provision for guarantees	—	9,939
	Other	5,945	4,468
		16,488	24,950
	Less: current portion of provisions for liabilities and charges	—	(9,939)
		16,488	15,011

18 SALES

	Three months ended		Nine months ended	
	30 September 2001	30 September 2000	30 September 2001	30 September 2000
Gas sales (including excise tax, net of VAT) to customers in:				
Russian Federation	17,924	18,623	79,384	70,939
Former Soviet Union (excluding Russian Federation)	6,311	2,473	33,974	53,838
Europe	83,928	98,568	325,874	318,158
Gross sales of gas	108,163	119,664	439,232	442,935
Excise tax	(17,052)	(15,608)	(73,253)	(74,363)
Net sales of gas	91,111	104,056	365,979	368,572
Sales of gas condensate and oil and gas processing products (net of sales taxes)	15,317	7,461	46,293	22,094
Gas transportation sales	4,814	6,038	11,163	22,679
Other revenues	5,484	5,485	20,272	19,640
	116,726	123,040	443,707	432,985

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 30 September 2001)

19 EARNINGS PER SHARE

Earnings per share has been calculated by dividing the net profit for the three and nine month periods by the weighted average number of shares outstanding during each period.

There were 20.9 billion weighted average shares outstanding for the three and nine months ended 30 September 2001 and 21.1 billion weighted average shares outstanding for the three and nine months ended 30 September 2000.

20 SUBSIDIARY UNDERTAKINGS

Principal subsidiaries of the Group remain unchanged since 31 December 2000 except for the changes disclosed below.

Acquisition of AK SIBUR

In January 2001 the Group acquired 51% of the voting shares of AK SIBUR. AK SIBUR is a leading Russian company primarily engaged in gas and chemical products trading on domestic market as well as light hydrocarbon processing.

During the three month and nine month periods ended 30 September 2001 the acquired business contributed to the Group revenues of RR 10,389 and RR 36,001 and operating profit of RR 9 and RR 2,218, respectively.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:

Cash paid	720
Promissory notes of Group companies	1,138
Shares in other investments	657
Total purchase consideration	2,515
Fair value of identifiable net assets acquired	(943)
Goodwill	1,572

Other than for short-term investments, the fair value of the net assets approximated the book value of the net assets acquired. Goodwill is amortised over ten years and is included within other long-term assets.

The net cash flow arising from the acquisition is as follows:

Total purchase consideration	2,515
Less:	
Cash and cash equivalents acquired	(1,003)
Promissory notes of the Group companies	(1,138)
Shares in other investments	(657)
Net cash inflow on acquisition	283

Lebedinsky GOK

In January 2001 the Group exchanged its 57% interest in Lebedinsky GOK and 17% interest in Oskolsky EMK for a 48% interest in ZAO Gazmetall. ZAO Gazmetall is a metallurgical holding company with controlling interests in Lebedinsky GOK and Oskolsky EMK. As Gazprom intends to sell its shares of ZAO Gazmetall, the investment has been classified as an available-for-sale investment.

20 SUBSIDIARY UNDERTAKINGS (continued)

During the three months ended 30 September 2001 management revalued the investment in ZAO Gazmetall to its current market value of RR 2,000, recognising the net effect of revaluation in gains and losses on available-for-sale securities in the Statement of Operations.

21 COMMITMENTS AND CONTINGENCIES

Financial guarantees

The Group had outstanding guarantees issued to third parties in the amount of RR 51,256 and RR 56,983 (including guarantees denominated in USD of USD 1,726 million and USD 1,659 million) at 30 September 2001 and 31 December 2000, respectively.

In July 2001 ZAO Media-Most defaulted on a payment obligation of RR 7,711 under a loan agreement. This balance was settled by the Group in accordance with a loan guarantee agreement. The terms of the guarantee agreement provided for collateral in respect of the guarantee in the form of a 19% interest in NTV and a 25% interest in a number of other ZAO Media-Most operating companies.

At 30 September 2001 the Group held a 65% interest in NTV and 25% plus one share interest in a number of ZAO Media-Most operating companies. These stakes were included in short-term available-for-sale investments. Further 25% interests in the other ZAO Media-Most operating companies were held in collateral till November 2001 and then were also transferred into the Group's ownership.

In accordance with management assessments a provision of RR nil and RR 9,939 has been recorded within provisions for liabilities and charges in respect of the guarantees still in issue at 30 September 2001 and 31 December 2000, respectively.

Blue Stream Pipeline Company B.V.

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 60,338 (USD 2,053 million). At 30 September 2001 BSPC had used RR 23,747 (USD 808 million) of the credit facility of which RR 11,697 (USD 398 million) was guaranteed by the Group.

22 RELATED PARTIES

Related 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 and operating decisions.

Government

The Government of the Russian Federation, the principal shareholder of the Group, owns approximately 38.37% of the issued shares of the Group. 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.

Associated undertakings

Included within other long-term assets are USD denominated receivables from EuRoPolGaz s.a. in the amount of RR 11,397 and RR 13,830 at 30 September 2001 and 31 December 2000, respectively. Included within associated undertakings (see Note 11) is a loan receivable from

22 RELATED PARTIES (continued)

EuRoPolGaz s.a., in the amount of RR 25,913 and RR 26,744 at 30 September 2001 and 31 December 2000, respectively, issued by Gazprombank, a subsidiary of the Group, at an interest rate of LIBOR + 2.6 %.

Also included within associated undertakings (see Note 11) is a loan receivable from WINGAS GmbH, in the amount of RR 12,095 and RR 14,785 at 30 September 2001 and 31 December 2000, respectively. The interest rates vary for different loan tranches. At 30 September 2001 the aggregate effective interest rate for the loan receivable from WINGAS GmbH was LIBOR + 2.17%.

Included within accounts receivable (see Note 8) are accounts receivable from Group associates (excluding EuRoPolGaz s.a.) in the amount of RR 13,934 and RR 19,382 as at 30 September 2001 and 31 December 2000, respectively.

During periods ended 30 September 2001 and 2000 the Group recorded sales of gas to its associates in the amount of RR 58,233 and RR 51,111, respectively.

Gas is sold to associates, except for that sold to ZAO Moldovagaz, on the basis of long-term contracts, at market prices based on world oil and gas prices. Gas prices per thousand cubic meters for such sales ranged from USD67 to USD144 and from USD64 to USD129 in the nine months ended 30 September 2001 and 2000, respectively. Gas is sold to ZAO Moldovagaz based on annual contracts with fixed prices. Prices of gas per thousand cubic meters sold to Moldova amounted to USD80 in the nine months ended 30 September 2001 and 2000.

In addition, the Group purchased gas transportation services from certain of the associated undertakings, principally EuRoPolGaz s.a., which amounted to RR 6,276 and RR 5,338 for the nine months ended 30 September 2001 and 2000, respectively. The cost of these services was determined based on prices of gas sold to these companies.

Other

In the normal course of business, the Group enters into transactions with OAO Stroytransgaz for the construction of pipelines in the Russian Federation on the basis of the results of tenders. During the nine months ended 30 September 2001 and year ended 31 December 2000 certain representatives of the Group Board of Directors and members of their families owned significant shareholdings in OAO Stroytransgaz.

OAO Stroytransgaz rendered construction services for the Group in the amounts of RR 27,963 and RR 27,490 for the nine months ended 30 September 2001 and 2000, respectively. As at 30 September 2001 and 31 December 2000, the Group had advances and receivables due from OAO Stroytransgaz in the amounts of RR 3,989 and RR 1,935, respectively. As at 30 September 2001 and 31 December 2000, the Group had accounts payable to OAO Stroytransgaz in respect of construction of RR 12,286 and RR 10,393, respectively. As at 30 September 2001 and 31 December 2000, Gazprombank, the Group's principal banking subsidiary, had loans receivable from OAO Stroytransgaz of RR 829 and RR 1,170, respectively. Included within other long-term assets is a receivable due from OAO Stroytransgaz in connection with finance arrangements for construction for the Group undertaken by OAO Stroytransgaz in the amount of RR 3,518 and RR 6,667 at 30 September 2001 and 31 December 2000.

During the nine months ended 30 September 2001 and year ended 31 December 2000 certain members of the families of certain members of the Board of Directors of the Company owned significant interests in OOO Interprokom.

22 RELATED PARTIES (continued)

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 7,342 and RR 4,404 of equipment in the nine months ended 30 September 2001 and 2000, respectively. As at 30 September 2001 and 31 December 2000, the Group had advances and receivables due from OOO Interprokom in the amount of RR 889 and RR 2,794, respectively. Commission paid to OOO Interprokom amounted to RR 62 and RR 52 for the nine months ended 30 September 2001 and 2000, respectively.

Gazprombank, the Group's principal banking subsidiary, had outstanding import letters of credit issued on behalf of OOO Interprokom and sub-contractors of OOO Interprokom in the amount of RR 8,320 and RR 9,246 at 30 September 2001 and 31 December 2000 and, respectively. These import letters of credit are issued to third party suppliers in connection with the purchase of equipment by OOO Interprokom on behalf of the Group.

23 POST BALANCE SHEET EVENTS

During the fourth quarter of 2001 the Group signed a number of long-term loan agreements with a consortium of Hungarian banks for USD 130 million, with a consortium led by the Moscow Narodny Bank Ltd. for USD 200 million, with Deutsche Bank for USD 100 million and with Vneshtorgbank for USD 670 million. Terms of the above agreements vary from one to five years.

In December 2001 a subsidiary of Gazprombank issued eurobonds for the total amount of Euro 200 million under Gazprombank's guarantees.

OAO GAZPROM
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Printed by RR Donnelley Financial, 86956