



Open Joint Stock Company Gazprom U.S.\$30,000,000,000 Programme for the Issuance of Loan Participation Notes

*to be issued by, but with limited recourse to,
Gaz Capital S.A for the sole purpose of financing loans to*

Open Joint Stock Company Gazprom

Under the Programme for the Issuance of Loan Participation Notes described in this Base Prospectus (the "Programme"), Gaz Capital S.A. (the "Issuer"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue loan participation notes (the "Notes") on the terms set out herein, as completed by a final terms document (each, "Final Terms") setting out the specific terms of each issue. The aggregate principal amount of Notes outstanding will not at any time exceed U.S.\$30,000,000,000 (or the equivalent in other currencies). This Base Prospectus supersedes any previous base prospectus, offering circular or supplement thereto relating to the Programme. Any Notes issued under the Programme on or after the date of this Base Prospectus are issued subject to the provisions herein. This Base Prospectus does not affect any Notes issued prior to the date hereof.

Notes will be issued in Series (as defined in "Overview of the Programme") and the sole purpose of issuing each Series will be to finance loans (each a "Loan") to Open Joint Stock Company Gazprom (the "Borrower," "Gazprom" or the "Company") as borrower, on the terms of an amended and restated facility agreement between the Issuer and the Borrower dated December 7, 2005 (the "Facility Agreement"), as amended and supplemented by a loan supplement to be entered into in respect of each Loan on each Issue Date (each a "Loan Supplement" and, together with the Facility Agreement, each a "Loan Agreement") between the Issuer and the Borrower. Subject as provided in the Trust Deed (as defined herein) the Issuer will charge, by way of first fixed charge as security for its payment obligations in respect of each Series of Notes and under the Trust Deed (a) its right to principal, interest and other amounts as lender under the relevant Loan Agreement and (b) amounts received pursuant to the relevant Loan in an account of the Issuer (as described herein), in each case other than the Reserved Rights (as defined in the Trust Deed) and certain amounts relating to the Reserved Rights to the Trustee for the benefit of itself and the Noteholders (as defined herein) and will assign its administrative rights under the relevant Loan Agreement to the Trustee (the "Assigned Rights").

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

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 22.

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

Application has been made to The Irish Stock Exchange Limited (the "Irish Stock Exchange") for Notes issued under the Programme within 12 months of this Base Prospectus to be admitted to the daily official list of the Irish Stock Exchange (the "Official List") and to be admitted to trading on the regulated market of the Irish Stock Exchange (the "Market"). The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments (a "Regulated Market"). Application has been made for this Base Prospectus to be approved by the Irish Financial Services Regulatory Authority (Financial Regulator) in its capacity as competent authority in Ireland (the "Competent Authority") for the purposes of Directive 2003/71/EC (the "Prospectus Directive"), and copies of documents in relation to the Notes to be issued during the period of 12 months from the date of this Base Prospectus will be filed with and are expected to be approved by the Competent Authority for the purposes of the Prospectus Directive. Any foreign language text included within this document is for convenience purposes only and does not form part of this Base Prospectus. Unlisted Notes may also be issued pursuant to the Programme. The relevant Final Terms in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Irish Stock Exchange (or any other stock exchange). Application may also be made to have Rule 144A Notes designated as eligible for trading in the Private Offering, Resale and Trading through Automated Linkages ("PORTAL") Market of The Nasdaq Stock Market, LLC, as specified in the applicable Final Terms. **The Competent Authority has only approved this document in relation to Notes which are to be listed on the Irish Stock Exchange or another Regulated Market in the European Economic Area, and the Competent Authority has neither reviewed nor approved this document in relation to any unlisted Notes.**

Regulation S Notes will initially be represented by interests in a global unrestricted Note in registered form (each a "Regulation S Global Note"), without interest coupons, which will be deposited with a common depository for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), and registered in the name of a nominee, on its issue date as set out in the relevant Final Terms (the "Issue Date"). Beneficial interests in a Regulation S Global Note will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. Rule 144A Notes will initially be represented by a global restricted Note in registered form (each a "Rule 144A Global Note" and together with any Regulation S Global Notes, the "Global Notes"), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("DTC") on its Issue Date. Beneficial interests in a Rule 144A Global Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "Clearing and Settlement." Individual definitive Notes in registered form will only be available in certain limited circumstances as described herein.

A Series of Notes may be rated or unrated. If a Series of Notes is rated, it will be specified in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The minimum denomination of any Notes issued under the Programme shall be €50,000 (or its equivalent in any other currency as at the date of issue of the Notes).

Arrangers and Permanent Dealers

Deutsche Bank

UBS Investment Bank

Permanent Dealers

ABN AMRO

Commerzbank Corporates & Markets

Credit Suisse

IFC METROPOL

JPMorgan

Merrill Lynch International

Morgan Stanley

National Reserve Bank

Renaissance Capital

JSCB Rosbank

UniCredit

The date of this Base Prospectus is July 29, 2008.

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, Gazprom and Gazprom and its subsidiaries taken as a whole (the “Group”) which, according to the particular nature of the Issuer, Gazprom, the Group, the Notes and the Loans, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, Gazprom and the Group. Each of the Issuer (whose registered office appears below) and Gazprom (whose registered office appears on page 18 of this Base Prospectus) accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of each of the Issuer and Gazprom (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus does not constitute an offer to sell Notes, or an invitation by or on behalf of the Issuer, Gazprom, the Dealers or the Arrangers (each as defined under “Overview of the Programme”) to subscribe for or purchase any Notes.

The distribution of this Base Prospectus and the offer or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by the Issuer, Gazprom, any of the Dealers and the Arrangers to inform themselves about and to observe any such restrictions. In particular, the Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission and will not be registered under the Securities Act. Subject to certain exceptions, Notes may not be offered or sold in the United States or to U.S. persons. Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Base Prospectus is set out under “Subscription and Sale.”

No person is authorized to provide any information or make any representation not contained in this Base Prospectus and any information or representation not contained in this Base Prospectus (including any information or representations contained within it) must not be relied upon as having been authorized by or on behalf of the Issuer, Gazprom, the Trustee, any of the Dealers or the Arrangers. The delivery of this Base Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. The websites of Gazprom and the members of the Gazprom Group and the information posted thereon do not form any part of the contents of this Base Prospectus.

Neither the delivery of this Base Prospectus nor the offer, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of Gazprom or the Group since the date of this Base Prospectus.

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

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Base Prospectus. Any consents or approvals that are needed in order to purchase any Notes must be obtained by such prospective purchaser. Gazprom, the Issuer, the Arrangers and the Dealers are not responsible for compliance with these legal requirements. The appropriate characterization of any Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase such Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which any Notes constitute a legal investment for prospective investors whose investment authority is subject to legal restrictions. Such prospective investors should consult their legal advisors regarding such matters.

The Arrangers, the Dealers and their respective affiliates have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange non-public market financing for, and enter into derivatives transactions with, Gazprom and its affiliates.

The Issuer is a *société anonyme* incorporated for an unlimited duration under the laws of the Grand Duchy of Luxembourg (“Luxembourg”). The Issuer is not a subsidiary of Gazprom. The registered office of the Issuer is located at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg and the Issuer is registered with the *Registre de Commerce et des Sociétés à Luxembourg* (the Register of

Commerce and Companies in Luxembourg) under number B-95071. For further information about the Issuer, see “Gaz Capital S.A.”

In connection with the issue of any Series of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, this is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Series of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series of Notes and 60 days after the date of the allotment of the relevant Series of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE DEALERS OR THE ARRANGERS AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS BASE PROSPECTUS, AND NOTHING CONTAINED IN THIS BASE PROSPECTUS IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE.

EACH PERSON RECEIVING THIS BASE PROSPECTUS ACKNOWLEDGES THAT SUCH PERSON HAS NOT RELIED ON THE DEALERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF IN CONNECTION WITH ITS INVESTIGATION OF THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION OR ITS INVESTMENT DECISION. EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN ANY NOTES ISSUED UNDER THIS PROGRAMME FROM TIME TO TIME MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE ISSUER, GAZPROM AND THE GROUP AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE, AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

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

NOTICE TO NEW HAMPSHIRE RESIDENTS

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

AVAILABLE INFORMATION

Each of Gazprom and the Issuer has agreed that, for so long as any Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, Gazprom or the Issuer will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or Trustee, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

ENFORCEABILITY OF JUDGMENTS

Gazprom is an open joint stock company incorporated under the laws of Russia, and most of our assets are currently located outside the United States and the United Kingdom. In addition, all of our directors and executive officers are residents of countries other than the United States and the United Kingdom. As a result, it may not be possible for you to:

- effect service of process within the United States or the United Kingdom upon us or any of our directors or executive officers named in this Base Prospectus; or
- enforce, in the U.S. or English courts, judgments obtained outside the U.S. or English courts against us or any of our directors and executive officers named in this Base Prospectus in any action, including actions under the civil liability provisions of the U.S. securities laws or any state or territory of the United States.

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

A final judgment obtained in a court in the United Kingdom will be enforceable in Luxembourg subject to applicable exequatur proceedings, as provided for in Council Regulation (EC) 44/2001 of December 22, 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters and the Council Regulation (EC) No.805/2004 of April 21, 2004 creating a European enforcement order for uncontested claims.

Judgments rendered by a court in any jurisdiction outside Russia will be recognized by courts in Russia only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between Russia and the country where the judgment is rendered and/or a federal law is adopted in Russia that provides for the recognition and enforcement of foreign court judgments. No such treaty exists between the United States and Russia or the United Kingdom and Russia for the reciprocal enforcement of foreign court judgments and no relevant federal law on enforcement of foreign court judgments has been adopted in Russia. However, we are also aware of at least one instance in which Russian courts have recognized and enforced an English court judgment, on the basis of a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant English court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognize and enforce an English court judgment on these grounds.

Each Loan Agreement will be governed by English law and provide for disputes, controversies and causes of action brought by the Issuer against us (at its option) to be settled by arbitration in accordance with the Rules of the LCIA (formerly the London Court of International Arbitration). Russia and Luxembourg are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “New York Convention”). Consequently, a final conclusive decision obtained by arbitration under the rules of the LCIA will be enforceable in Luxembourg, subject to exequatur proceedings as provided in the New York Convention, and Russian courts should generally recognize and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom on the basis of the New York Convention, subject to qualifications provided for in the New York Convention and compliance with Russian laws. However, any arbitral award pursuant to arbitration proceedings in accordance with the Rules of the LCIA and the application of English law to the Loan Agreements may be limited, in particular, by mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies. The Arbitrazh Procedure Code of the Russian Federation also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Russian courts which grounds are substantially similar to those provided by the New York Convention. The Arbitrazh Procedure Code and other Russian procedural laws could change, and other grounds for Russian courts to refuse recognition and enforcement of foreign arbitral awards could arise.

SUPPLEMENTAL BASE PROSPECTUS

Gazprom and the Issuer will each agree to comply with any undertakings given by it from time to time to the Irish Stock Exchange in connection with listed Notes and, without prejudice to the generality of the foregoing, Gazprom and the Issuer will each, so long as any of its Notes remains outstanding and admitted to trading on the Market, if required by the guidelines issued by the Irish Stock Exchange (the “Guidelines”), the Prospectus Directive or applicable law, prepare and make available an appropriate amendment or supplement to this Base Prospectus or a further prospectus as may be required by the Guidelines, the Prospectus Directive or by such law which in respect of any subsequent issue of Notes to be listed on and admitted to trading on the Market constitutes a supplemental prospectus as required by such rules, directive or law.

Gazprom has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Base Prospectus which is capable of affecting the assessment by investors of any Notes and the corresponding Loan and whose inclusion in this Base Prospectus or removal is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of Gazprom and the Issuer, and the rights attaching to such Notes and Loan, Gazprom shall prepare an amendment or supplement to this Base Prospectus or publish a replacement base prospectus for use in connection with any subsequent offering of the Notes and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

Gazprom and the Issuer may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the terms and conditions described herein, in which event a supplemental prospectus, if appropriate, will be published which will describe the effect of the agreement reached in relation to such Notes.

PRESENTATION OF CERTAIN INFORMATION

References

In this Base Prospectus, the terms “we,” “us,” “our,” “Gazprom Group,” and “Group” refer to Open Joint Stock Company Gazprom (also known as OAO Gazprom) and its consolidated subsidiaries, taken as a whole, unless the context otherwise requires. The term “Gazprom” refers to OAO Gazprom.

Unless the context otherwise requires, in this Base Prospectus the term “Gazprom Neft” refers to OAO Gazprom Neft (formerly OAO Sibneft) and its consolidated subsidiaries, taken as a whole. Unless otherwise indicated, information with respect to our business, financial condition and results of operations as of and for the years ended December 31, 2007, 2006 and 2005 includes information with respect to Gazprom Neft, which we acquired in October 2005 and have consolidated since then.

Unless the context otherwise requires, the term “Sibur Holding” refers to OAO Sibur Holding and its consolidated subsidiaries, taken as a whole, and the term “Gazprombank” refers to Gazprombank (OAO) (formerly AB Gazprombank (ZAO)) and its consolidated subsidiaries, taken as a whole.

Definitions of certain terms used in this Base Prospectus may be found under the heading “Glossary of Selected Terms.”

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

We measure our gas condensate and crude oil in metric tons. This Base Prospectus contains conversions of certain volumes from tons into barrels solely for the convenience of the reader. The conversion of volumes from metric tons to barrels varies at each of our fields due to different geological conditions. In this document, however, we use a conversion rate for all conversions of tons to barrels of one ton of crude oil = 7.33 barrels of crude oil and one ton of gas condensate = 8.18 barrels of gas condensate. This Base Prospectus also contains conversions of cubic meters of natural gas and barrels of gas condensate and crude oil into barrels of oil equivalent solely for the convenience of the reader. In this Base Prospectus, we use a conversion rate for all conversions of one mcm of natural gas = 5.89 barrels of oil equivalent, one barrel of gas condensate = one barrel of oil equivalent and one barrel of crude oil = one barrel of oil equivalent.

Unless otherwise indicated, the proved and probable gas reserves of Gazprom and its subsidiaries are expressed in this Base Prospectus in terms of “separator” gas. See the DeGolyer and MacNaughton report attached to this Base Prospectus as Appendix A. Generally, separator gas is gas that has not been treated and therefore includes an amount of gas that is not sold to customers.

Reproduction of information

Information contained under the heading “Overview of the Russian Gas Industry and Certain Regulatory Matters” includes extracts from information and data publicly released by official and other sources, including Russian governmental agencies and bodies. We accept responsibility for accurately reproducing such information and data and, as far as Gazprom is aware and is able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading, but we accept no responsibility in respect of such information and data or its accuracy.

Currencies

In this Base Prospectus, references to “Russian Roubles,” “rubles” and “RR” are to the lawful currency for the time being of Russia; references to “U.S. dollars,” “dollars” and “U.S.\$” are to the lawful currency for the time being of the United States of America; references to “£” are to the

lawful currency for the time being of the United Kingdom and references to “€” and “euro” are to the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended. References to “CHF” and “LTL” are to the lawful currencies for the time being of Switzerland and the Republic of Lithuania, respectively.

Exchange rates

The table below sets out, for the periods and dates indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on the official exchange rate quoted by the Central Bank of the Russian Federation (the “CBR”). Fluctuations in the exchange rates between the ruble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

	<u>High</u>	<u>Low</u>	<u>Average⁽¹⁾</u>	<u>Period End</u>
2008 (through July 23, 2008).....	24.89	23.13	23.85	23.20
2007	26.58	24.26	25.49	24.55
2006	28.48	26.64	27.31	26.33
2005	29.00	27.46	28.32	28.78
2004	29.45	27.75	28.73	27.75
2003	31.88	29.25	30.61	29.45

Source: The CBR.

Note:

(1) The average of the exchange rates on the last business day of each month for the relevant annual period, and on each business day for any other period.

This Base Prospectus contains conversions of certain amounts into dollars at specified rates solely for the convenience of the reader. The U.S. dollar amounts have been translated from the ruble amounts at the rate of RR24.5462 = U.S.\$1.00, which was the CBR rate on December 31, 2007.

No representation is made that the U.S. dollar amounts referred to in this Base Prospectus could have been or could be converted into rubles or U.S. dollars, as the case may be, at the above exchange rates or at all.

OVERVIEW

This overview may not contain all the information that may be important to prospective purchasers of the Notes and, therefore, should be read in conjunction with this entire Base Prospectus, including the more detailed information regarding our business and the financial statements and related notes included elsewhere in this Base Prospectus. Prospective purchasers of the Notes should also carefully consider the information set forth under the heading "Risk Factors." Certain statements in this Base Prospectus include forward-looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements."

Gazprom

We are one of the world's largest oil and gas companies in terms of reserves, production and market capitalization. We supply a major part of the natural gas consumed in Russia and a significant portion of the natural gas consumed in the FSU countries to which we export our natural gas. According to the statistical survey "2007 Natural Gas Year in Review. CEDIGAZ' First Estimates" (May 2008), for the year ended December 31, 2007, we supplied approximately 26.8% of the natural gas consumed in Europe, making us the largest supplier of natural gas to Europe. For the year ended December 31, 2007, our sales net of excise tax, value added tax ("VAT") and customs duties were RR2,390,467 million (U.S.\$97.4 billion) and our operating profit was RR701,788 million (U.S.\$28.6 billion). As of December 31, 2007, we had total assets of RR6,792,556 million (U.S.\$276.7 billion) and total shareholders' equity (excluding minority interest) of RR3,950,789 million (U.S.\$161.0 billion).

Reserves. We estimate our reserves using the Russian reserves system, which differs significantly from the internationally-accepted classifications and methodologies developed and approved by the Society of Petroleum Engineers and other organizations known as the Petroleum Resources Management System ("SPE-PRMS"), in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. We estimate that we had Russian reserves classification ABC₁ reserves of 29.8 tcm (1,051.9 tcf) of natural gas, 1,212.5 million tons (9.9 bbls) of gas condensate and 1,509.9 million tons (11.1 bbls) of crude oil, for a total of 196,425.4 mmboe, as of December 31, 2007. As of December 31, 2007, approximately 75.4% of our ABC₁ natural gas reserves were concentrated in western Siberia. Most of our reserves outside of western Siberia are located in the Barents Sea and southern Russia.

Independent petroleum engineering consulting firms DeGolyer and MacNaughton and Miller and Lents evaluated our reserves as of December 31, 2007. The evaluations were conducted in accordance with SPE-PRMS Standards and covered approximately 95% of our ABC₁ natural gas reserves, 93% of our ABC₁ gas condensate reserves and 93% of our crude oil reserves. See "Gazprom—Reserves and Production—Differences between SPE-PRMS Standards and SEC Standards." As of December 31, 2007, our proved reserves according to an evaluation by DeGolyer and MacNaughton (attached as Appendix A hereto) and an evaluation by Miller and Lents (attached as Appendix B) amounted to 18.3 tcm (647.0 tcf) of natural gas, 568.9 million tons (4.7 bbls) of gas condensate and 727.0 million tons (5.3 mmbbls) of crude oil, for a total of 117,887.4 mmboe, and our probable reserves amounted to 2.5 tcm (88.4 tcf) of natural gas, 117.2 million tons (1.0 bbls) of gas condensate and 405.5 million tons (3.0 bbls) of crude oil, for a total of 18,656.0 mmboe. We believe that the evaluated fields are likely to contain most of our reserves that would be deemed proved or probable upon a full evaluation of our reserves according to SPE-PRMS Standards.

Exploration and production. As of December 31, 2007, we held 60 exploration licenses (without development rights), 54 combined hydrocarbon exploration, development and production licenses and 140 development and production licenses.

In the year ended December 31, 2007, we produced 548.6 bcm (19,374.4 bcf) of natural gas, 11.3 million tons (92.4 mmbbls) of gas condensate and 34.0 million tons (249.2 mmbbls) of crude oil, for a total of 3,572.9 mmboe, as compared with 556.0 bcm (19,635.7 bcf) of natural gas, 11.4 million tons (93.3 mmbbls) of gas condensate and 34.0 million tons (249.2 mmbbls) of crude oil, for a total of 3,617.3 mmboe, in the year ended December 31, 2006.

Our natural gas production represented approximately 84% and 85% of total natural gas production in Russia in 2007 and 2006, respectively. Our production in western Siberia accounted for 93% of our natural gas production in each of 2007 and 2006.

Gas transportation. We own and operate Russia's Unified Gas Supply System (the "UGSS"), which collects, processes, transports, stores and delivers substantially all the natural gas sold in

Russia. The UGSS comprises the world's largest high-pressure trunk pipeline system. As of December 31, 2007, the total length of the system was approximately 158,200 km (not including pipelines for the transportation of gas condensate) and included 218 compressor stations on the pipelines and 25 underground natural gas storage facilities. We control and manage the transportation of gas in the UGSS network from our central dispatch management center, located in Moscow. We transported 706.7 bcm and 717.8 bcm of natural gas in 2007 and 2006, respectively, of which deliveries on behalf of third parties accounted for 120.5 bcm (17.0%) and 115.0 bcm (16.0%) of the natural gas supplied through the UGSS in 2007 and 2006, respectively.

As of June 30, 2008, we held controlling interests in 168, and associated interests of at least 20% in an additional 28, of the more than 330 gas distribution companies in Russia. These gas distribution companies own and operate medium- and low-pressure pipelines that transport gas to end consumers.

Processing, refining and petrochemical production. We refine a large amount of the natural gas, gas condensate, crude oil and oil gas that we produce. As of December 31, 2007, our total annual processing and refining capacity was 52.5 bcm of natural gas, 20.7 bcm of oil gas and 48.1 million tons of unstable gas condensate and crude oil. In 2007, we refined 44.0 bcm of gas and 38.2 million tons of unstable gas condensate and crude oil, as compared with 47.3 bcm of gas and 36.4 million tons of unstable gas condensate and crude oil in 2006, respectively. We also produce a wide range of refined and petrochemical products.

In April 2008, the Board of Directors of Gazprombank approved the sale of a 50% plus one share interest in Sibur Holding, the principal producer of gas and petrochemical products in the Gazprom Group. See "Gazprom—Refining—Gas and petrochemical production."

Gas exports. We export our natural gas to countries outside of Russia and the CIS (which we refer to as Far Abroad) through our wholly-owned trading subsidiary, OOO Gazprom Export ("Gazprom Export") (formerly OOO Gazexport). Our sales of natural gas to Far Abroad accounted for approximately 29% and 28% of our natural gas sales volume in the years ended December 31, 2007 and 2006, respectively, and 57% and 60% of our natural gas net sales revenues in such years. Our primary export market within the Far Abroad region is Europe. Most of our exports to Europe are transported by pipelines through Ukraine and Belarus.

Domestic natural gas sales. We sell our natural gas domestically primarily through our wholly-owned subsidiary, OOO Mezhhregiongaz ("Mezhhregiongaz"), and our regional gas sales companies. Regional gas sales companies contract directly with and collect payments from the end customers, including households. Our sales of natural gas in Russia accounted for approximately 54% and 55% of our natural gas sales volume in the years ended December 31, 2007 and 2006, respectively, and 26% and 25% of our natural gas net sales revenues in such years.

Relationship with the Government. The Russian Federation currently controls more than 50% of our shares. As of May 8, 2008, it held 38.37% of our shares directly and 11.63% indirectly, of which 10.74% were held through OAO Rosneftegaz ("Rosneftegaz"), a wholly state-owned company, and 0.89% through another state-controlled company, OAO Rosgazifikatsiya ("Rosgazifikatsiya"). Moreover, our subsidiaries (excluding Gazprombank) held approximately 0.13% of our shares as of May 8, 2008, which they are entitled to vote as owners.

As our controlling shareholder, the Russian Federation has a strong influence over the major decisions made at our shareholder meetings and, as the nominating party for a majority of the members of Gazprom's Board of Directors, is able to determine our strategy, make policy decisions in relation to the main areas of our business (including investments, borrowings, risk management and asset allocation), and supervise the implementation of such decisions. We are also a "natural monopoly" in the transportation of natural gas under Federal Law No. 147 FZ, dated August 17, 1995 (the "Natural Monopoly Law"), which means that the tariffs we charge for gas transportation through our trunk pipelines are subject to regulation by the Government.

Pursuant to Federal Law No. 69 FZ, dated March 31, 1999 "On Gas Supply in the Russian Federation" (the "Gas Supply Law"), the Government has the right to substitute regulation of gas transportation tariffs related to the natural monopoly activity for regulation of both gas prices for end consumers and gas transportation tariffs levied on independent gas suppliers. The Government has exercised this right. As part of the development of the annual federal budget and the three-year social and economic development plan of Russia, the Government establishes a framework for changes in the wholesale gas prices we charge.

As one of the world's leading vertically integrated energy companies, we play a significant role in Russia's financial system and economy and are the largest tax payer to the state budget. See "Risk Factors—Risks Relating to Our Business—The Government has exercised, and can be expected to continue to exercise, a strong influence over our operations."

Strategy

Our strategy is to solidify our position as a leading global energy company by further increasing the reliability of our natural gas supplies and diversifying our activities in the energy sector, both in the domestic and foreign markets.

Key elements of our development strategy

Exploration and production. To pursue the recovery of our hydrocarbon reserves, we have developed a long-term geological exploration program primarily focusing on production regions, the most important of which are the Nadym-Pur-Tazovsky region in western Siberia and the pre-Caspian oil and gas bearing provinces, as well as other promising gas production regions, such as the Yamal Peninsula, the shelf of the Arctic seas (including the Obskaya and Tazovskaya Bays), eastern Siberia and the Far East. In accordance with this program, we plan to maintain a balanced growth in our reserves and production through 2010 and to ensure the enhanced recovery of our gas reserves in the future.

In addition, in June 2007, we signed an agreement with BP plc ("BP") and OAO TNK-BP (together with certain affiliated entities, "TNK-BP") pursuant to which TNK-BP is expected to sell to us a 62.9% interest in OAO RUSIA Petroleum ("RUSIA Petroleum"), the holder of the license for the Kovykta field. We expect to consummate the transaction in the second half of 2008. See "Gazprom—Reserves and Production—Projects and alliances in reserves and production—BP and TNK-BP."

Our development strategy includes prioritizing our investments in those gas production fields that we believe will provide the most efficient and integrated development of gas production, transportation, processing and storage facilities.

After considering general market conditions and the potential of our reserve base, we plan to provide for an annual production (including production in Eastern Russia) of 570 bcm of natural gas by 2010, 610-615 bcm by 2015 and 650-670 bcm by 2020 in order to meet anticipated demand in Russia and abroad. These production targets are subject to adjustment in case of changes in general market conditions in Russia and abroad and the expected energy needs of the Russian economy. Our production is expected to be carried out both in traditional gas production areas, primarily in the Nadym-Pur-Tazovsky region, and in new oil-and gas-bearing areas, such as the Yamal Peninsula, the shelf of the Arctic seas, eastern Siberia and the Far East.

For example, through 2010, we plan to provide for scheduled gas production volumes by commissioning additional facilities at our existing fields and new fields in the Nadym-Pur-Tazovsky region (the Lower Cretaceous deposits of the Zapolyarnoye field and the Pestsovoye field, the Achimovsk formations of the Urengoiskoye field, the Aptian and Lower Cretaceous deposits of the Nydinsk area of the Medvegye field, the Cenomanian deposits of the Zapadno-Pestsovoye field, and achieving projected capacities of the Kharvutinskaya area of the Yamburgskoye field and the Yuzhno-Russkoye field), which can be more efficiently developed due to their close proximity to existing infrastructure facilities. After 2010, we intend to develop new strategic fields in the Yamal Peninsula, the shelf of the Barents Sea, the shelf of the Arctic seas (including the Obskaya and Tazovskaya Bays), the Far East and eastern Siberia. The development of these fields, in particular those in the Yamal Peninsula and the shelf of the Barents Sea, will require significant investment in the near-term because of their distance from existing gas transportation facilities, the complexity of well construction in such areas and difficulties in the implementation of new technologies, including those for environmental preservation in severe weather conditions.

We also intend to expand our reserves outside of Russia and obtain licenses for exploration and development of hydrocarbon reserves in various international regions. Currently, the Group conducts business in Vietnam, India, Venezuela, Libya, Uzbekistan, Kyrgyzstan and Tajikistan. We are also negotiating to participate in projects in other central Asian, Middle Eastern and African countries.

To continue our transformation into a global energy company and a leader in the global energy market, we are striving to consolidate our position in the oil industry, further diversify our sources of income and decrease our financial dependency on gas exports. Our acquisition of Gazprom Neft in

2005 doubled our oil reserves and tripled our liquid hydrocarbon production capacity. In April 2007, we entered into agreements with Eni Spa (“Eni”) and Enel SpA (“Enel”) to have the right to acquire a further 20% interest in Gazprom Neft. We anticipate that Gazprom Neft will remain a vertically integrated company, including oil production, refining and marketing assets, and will become the platform for further development of our oil business. We intend to increase our oil production to 90-100 million tons per year by 2020. We plan to achieve this target gradually by putting on stream Gazprom Neft’s fields and fields owned by Slavneft and Tomskneft, in each of which Gazprom Neft owns a 50% interest, and by expanding the development of other liquid hydrocarbon reserves of our natural gas production subsidiaries and by acquiring new licenses in Russia and abroad.

Gas transportation. To ensure reliable transportation of the growing volumes of gas from our production sites to the domestic market and to satisfy our contractual export obligations, we are developing new transportation facilities. In determining which gas fields to develop first, we take into account the efficiency of gas supplies. This is primarily determined by the cost of arranging for a particular field’s connection to the UGSS, which is a very capital intensive process. We also take into account the expected timing for achieving efficient utilization and optimal productivity of the existing gas transportation system. Our most significant current gas transportation projects in Russia are the construction of a pipeline to connect the northern areas of the Tyumen region with Torzhok (the “SRTO-Torzhok pipeline”), the Gryazovets-Vyborg pipeline and the extension of the gas transportation system in the Urengoi region. Our other projects currently being implemented include the Kasimovskoye PKhG-Voskresensk pipeline and the Pochinki-Gryazovets pipeline. We expect our next significant projects to be the construction of the Bovanenkovo-Ukhta and the Ukhta-Torzhok trunk gas pipeline system to transport gas from the fields on the Yamal Peninsula and the construction of the Murmansk-Volkhov pipeline to transport gas from the Shtokmanovskoye field to the North-Western region of Russia. These projects are not expected to be operational until after 2010. To diversify our export flows, we are preparing to construct the Nord Stream pipeline directly from Russia to Germany under the Baltic Sea and are considering constructing the South Stream pipeline from Russia to Bulgaria under the Black Sea.

One of our long-term goals is the creation of a gas transportation pipeline network in eastern Russia. The Government authorized us to coordinate a program to create a unified gas production, transportation and supply system in eastern Siberia and the Far East with the potential export of gas to markets in China and other Asian-Pacific countries (the “Eastern Program”). We are currently participating in the construction of the Sakhalin-Khabarovsk-Vladivostok gas pipeline and are also considering participating in the development of other gas transportation projects in eastern Siberia and the Far East.

We perform regular diagnostics, capital repairs and scheduled maintenance of the gas transportation system that are intended to enhance gas supply reliability and gas flow efficiency. As a result, over the last few years we have decreased the instances of technical failures in our gas transportation system. Currently, we believe our maintenance activities are sufficient to maintain optimal operation of our gas transportation system; however, in the near future we expect to significantly increase the level of our capital repairs as a result of the aging of extensive sections of gas pipelines that were put into operation in the 1980s and the early 1990s.

Refining. We intend to increase our production of refined products, the extraction of valuable components from our gas, the depth of our feedstock processing and our refining throughput. We plan to develop our gas refining and petrochemical activities primarily at our existing refining and processing facilities. In furtherance of these goals, it is expected that OOO Gazprom Pererabotka (“Gazprom Pererabotka”) will implement projects and manage our gas refining and petrochemical facility assets, Mezhregiongaz will coordinate our nitrogen fertilizer assets and OAO Vostokgazprom (“Vostokgazprom”) will supervise methanol production. In addition, we plan to develop gas, petrochemical and processing projects with respect to hydrocarbon production in eastern Siberia and the Far East.

It is intended that Gazprom Neft will lead the development of our crude oil processing segment. We estimate that we will process 70-80 million tons of crude oil by 2020. We intend to achieve this level of production by expanding our crude oil processing facilities in Russia and entering into the European processing market.

Marketing and sales. We develop our pipeline gas marketing strategy based on the characteristics of our different markets.

Our strategy in the Russian domestic market consists of ensuring a continuous gas supply to our domestic customers while improving our profitability. Our main objective in our strategy to develop the domestic market is to achieve a transition from the regulation of our wholesale gas prices to the regulation of gas transportation tariffs through trunk pipelines for all gas suppliers. We propose: (i) maintaining state-regulated prices for supplies of gas to households; (ii) expanding wholesale gas sales through e-commerce and exchange trades; and (iii) forming a market sector for prices to be established between contracting parties and set out in long-term contracts, based on a transparent price formula. We anticipate the wholesale gas market to be dominated by the state regulated sector until 2011. After 2011, this sector is expected to decline, being maintained primarily for supplies of gas to households, and the market sector for contract prices is expected to become the largest in terms of the volume of gas supply. In accordance with a Government decision, domestic gas prices should gradually rise to a level sufficient to assure that domestic gas deliveries are equally as profitable as foreign gas deliveries, taking into consideration transportation costs and custom duties. Simultaneously with establishing market prices, the regulated transport tariff is expected to be used for transportation through trunk pipelines operated by natural monopolies. The regulated transport tariff is also expected to be imposed on transportation through gas distribution networks. This is designed to ensure reliable deliveries of gas to different categories of end-users, promote optimal pricing proportions between gas and alternative fuels and stimulate effective gas usage by energy-saving. In the framework of the above-described strategy, the Government has relaxed state regulation of the gas industry by allowing contract prices within certain minimum and maximum levels. This change affects gas users and gas deliveries to existing users exceeding the volumes set forth in the contracts for 2007.

Our key objectives in the European market are to maintain our market-leading position, provide for reliable gas supply, and increase the efficiency of our marketing activities by gaining access to end-users. We plan to achieve these objectives by developing relationships with traditional customers on a long-term contractual basis and using new forms of trade based on short-term and medium-term sales, as well as gas exchange, spot and one-time transactions. To consolidate our position in the European natural gas market and improve the reliability and flexibility of our gas supply, we intend to expand the use of underground gas storage facilities in Europe and increase our ownership in companies engaged in the sale of gas and electricity to end-users.

The key objective of our marketing strategy in the FSU countries is to ensure that Russian gas will continue to maintain its dominant position in the energy sector of the former Soviet republics, while adjusting the pricing and other terms with respect to sales to FSU customers to terms that are similar to those we currently have with our European customers. Our aim is to gradually achieve economically reasonable price levels in the FSU countries and to increase levels of access to end-users through privatized energy facilities, a strategy we expect will minimize our gas delivery transit risks.

In order to ensure flexibility in determining which fields in the new gas production regions in Russia to develop, we seek to cooperate with central Asian countries in developing gas reserves as well as upgrading and modernizing gas transportation systems. We expect that central Asian gas resources will open new possibilities in expanding the markets for our products as well as maintain reliable supplies to traditional consumers.

We anticipate expanding our positions in markets in the Asian and Pacific regions as well as in North America.

In respect of our oil and oil refinery products, we intend to implement a marketing strategy providing for balanced utilization of our oil production and oil refining capacities as well as export capacities to sell our crude oil and oil refinery products. Our strategic goal of increasing our processing facilities corresponds to our plans to expand our distribution network by between 5,000 to 5,500 gasoline stations by 2020 with total annual sales of 12 million tons. We intend to achieve this goal by expanding our gasoline stations network in Russia and central Asian countries and by acquiring gasoline station networks in Europe, which is expected to follow the planned increase of our European processing assets.

Electricity. We consider electricity to be a new strategically important area for the development of our business. We believe that we can improve the stability of our business and achieve additional revenue by increasing our share of the power generation sector. Our strategic goal in this sector is to diversify tariff risks, optimize the balance of fuel in Russia and realize synergies with our gas business. In implementing our electricity strategy in Russia, we plan to increase the proportion of

technologically advanced coal generation and improve gas generation efficiency. We believe that such strategy will meet the increasing energy demands of Russia.

The power industry reform in Russia has enabled investors to participate in the acquisition of electricity generating capacities. As part of the reform, the power generation assets of OAO RAO UES of Russia, the former natural monopoly for electric power supply and major producer of electric power in Russia (“RAO UES”), were spun off into territorial generation companies (“TGKs”), generation companies of the wholesale market (“OGKs”) and other companies. TGKs primarily operate combined heat and power plants, which generate both electric and thermal power, and are situated throughout Russia on a one-per-region basis. OGKs generally operate power plants, specializing mainly in the generation of electric power in different regions of Russia.

During 2007, we acquired control over OAO Mosenergo (“Mosenergo”), one of the recently established TGKs. Mosenergo is the largest TGK in terms of total capacity and is situated in the central region of Russia, which has a high level of gasification. We plan to acquire interests in other generating companies established during the restructuring of RAO UES. See “Gazprom—Electricity.”

We also plan to participate in investment projects for the construction of power plants in Russia and abroad, including the construction of power plants and power stations at UGSS facility sites.

We are considering investing in the construction of, and in acquiring, European electricity power assets to increase our efficiency and improve our position in the European electricity markets. We are also increasing our cooperation with utility companies that have a pre-existing client base and technology that we believe will expand our presence in the international electricity market.

Diversification of products and activities. To continue our development as a global energy company, we are integrating new products and activities with our traditional pipeline gas supplies.

One of our foreign trade priorities is the gradual implementation of the production and maritime transportation of liquefied natural gas (“LNG”). Since late 2005, in the first stage of the development of our LNG business, we have performed occasional LNG spot trading transactions and swap transactions, exchanging our pipeline gas for LNG. We plan to increase the volumes of our LNG short-term trading and develop medium-term swap transactions in Europe.

In order to expedite entering the LNG market, we are also considering participating in existing third-party LNG projects. In April 2007, we acquired a 50% plus one share interest of Sakhalin Energy Investment Company Ltd. (“Sakhalin Energy”). See “Gazprom—Reserves and Production—Projects and alliances in reserves and production—Sakhalin II.”

In the later stages of our LNG strategy, we plan to establish our own LNG production in Russia and abroad and to create our own LNG marketing facilities. We expect that the Shtokmanovskoye field, with its production capacity of up to 95 bcm per year, will ensure sources of natural gas for LNG production as well as for gas deliveries through the Nord Stream pipeline. We anticipate targeting countries of the Asian-Pacific Region, the U.S. and Europe as our primary markets for sales of LNG.

We are also expanding our business activities in natural gas refining. In particular, we are considering opportunities to produce synthetic liquid fuels (“SLF”) using “gas to liquid” (“GTL”) technology. The development of an SLF industry would allow us to further diversify our businesses by producing high quality motor fuels and oil refinery products for sale to export markets, create a modern low cost transportation system from remote gas fields, and use low-pressure gas resources in processing and refining.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary consolidated financial information set forth below shows our consolidated financial information as of December 31, 2007, 2006 and 2005 and for the years then ended. The annual consolidated financial information as of December 31, 2007, 2006 and 2005 and for the years then ended has been extracted from, and should be read in conjunction with, the annual audited consolidated financial statements included elsewhere in this Base Prospectus. The summary consolidated financial information set forth below should also be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” below.

Our annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), which includes International Accounting Standards (“IAS”) and Interpretations issued by the International Accounting Standards Board (the “IASB”). IFRS differs in certain respects from U.S. GAAP.

The U.S. dollar amounts set forth below were not included in our annual audited consolidated financial statements and are provided for convenience only. Totals may not sum due to rounding. They should not be construed as representations that the RR amounts have been or could be converted into U.S. dollars at that or any other rate or as being representative of the U.S. dollar amounts that would have resulted if we reported in U.S. dollars. The U.S. dollar amounts have been translated from the RR amounts at the rate of RR24.5462 = U.S.\$1.00, which was the CBR rate on December 31, 2007.

	Year ended December 31,					
	2007		2006		2005	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
	(amounts in millions)					
Statement of Income						
Sales	97,386	2,390,467	87,676	2,152,111	56,365	1,383,545
Operating expenses ⁽¹⁾	(68,796)	(1,688,689)	(55,566)	(1,363,923)	(37,870)	(929,561)
Operating profit	28,590	701,778	32,110	788,188	18,495	453,984
Net interest expense ⁽²⁾	(64)	(1,581)	(298)	(7,311)	(448)	(11,000)
Net monetary effects and other financing items ⁽³⁾	1,157	28,388	1,630	40,014	(205)	(5,036)
Other ⁽⁴⁾	7,969	195,619	1,433	35,174	496	12,167
Profit tax expense of which	(9,338)	(229,219)	(8,947)	(219,604)	(5,467)	(134,184)
Current profit tax expense	(8,892)	(218,266)	(8,712)	(213,844)	(4,808)	(118,028)
Deferred profit tax expense	(446)	(10,953)	(235)	(5,760)	(658)	(16,156)
Profit for the period	28,313	694,985	25,929	636,461	12,871	315,931
Profit attributable to minority Interest	1,505	36,947	942	23,116	196	4,806
Profit attributable to equity holders of Gazprom	26,808	658,038	24,987	613,345	12,675	311,125

	As of December 31,					
	2007		2006		2005	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
	(amounts in millions)					
Balance Sheet						
<i>Assets</i>						
Total current assets, of which	63,815	1,566,417	60,388	1,482,305	40,799	1,001,453
Cash and cash equivalents and certain restricted cash ⁽⁴⁾	11,492	282,083	11,085	272,101	6,430	157,820
Total long-term assets, of which	212,910	5,226,139	155,935	3,827,620	135,974	3,337,641
Property, plant and equipment	142,200	3,490,477	123,643	3,034,968	113,704	2,791,011
Total assets	276,725	6,792,556	216,324	5,309,925	176,773	4,339,094
<i>Liabilities and Equity</i>						
Total current liabilities, of which	44,184	1,084,554	35,039	860,070	21,448	526,469
Taxes payable	2,997	73,563	2,786	68,380	4,270	104,817
Short-term borrowings and current portion of long-term borrowings	20,536	504,070	11,843	290,705	7,372	180,959
Short-term promissory notes payable	874	21,455	4,190	102,859	844	20,710
Total long-term liabilities, of which	56,828	1,394,905	44,815	1,100,035	44,565	1,093,891
Long-term borrowings	39,982	981,408	27,228	668,343	30,223	741,849
Long-term promissory notes payable	145	3,555	700	17,186	433	10,639
Total liabilities	101,012	2,479,459	79,854	1,960,105	66,013	1,620,360
Total equity, of which	175,713	4,313,097	136,470	3,349,820	110,760	2,718,734
Minority interest	14,760	362,308	6,574	161,362	5,798	142,317
Shareholders' equity	160,953	3,950,789	129,896	3,188,458	104,962	2,576,417

As of and for the year ended December 31,

	2007		2006		2005	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
	(amounts in millions, except for ratios)					
Certain Items and Ratios						
Adjusted EBITDA ⁽⁵⁾	36,328	891,715	39,278	964,128	23,651	580,545
Gross interest expense ⁽⁶⁾	(3,136)	(76,975)	(1,783)	(43,771)	(1,475)	(36,202)
Net interest expense ⁽²⁾	(64)	(1,581)	(298)	(7,311)	(448)	(11,000)
Total debt ⁽⁷⁾	61,544	1,510,666	43,995	1,079,915	38,918	955,285
Net debt ⁽⁸⁾	50,052	1,228,583	32,910	807,814	32,488	797,465
Adjusted EBITDA/Gross interest expense	(11.58)		(22.03)		(16.04)	
Adjusted EBITDA/Net interest expense	(564.02)		(131.87)		(52.78)	
Net debt/Adjusted EBITDA...	1.38		0.84		1.37	

Notes:

- (1) Includes impairment provisions for accounts receivable and prepayments, assets under construction, investments and other long-term assets and inventory obsolescence.
- (2) Gross interest expense less interest income.
- (3) Share of net income of associated undertakings and gains on available-for-sale investments. The year ended December 31, 2007 includes the impact of the deconsolidation of NPF Gazfund ("Gazfund").
- (4) Cash and cash equivalents and certain restricted cash include balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations but exclude cash restricted as to withdrawal under banking regulations.
- (5) Reconciliation from Adjusted EBITDA to operating profit:

	Year ended December 31,					
	2007		2006		2005	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
	(amounts in millions)					
Adjusted EBITDA	36,328	891,715	39,278	964,128	23,651	580,545
less: depreciation	(7,479)	(183,577)	(6,822)	(167,446)	(5,084)	(124,783)
less: releases (charges) of provisions for impairment of assets ⁽¹⁾	(314)	(7,708)	(576)	(14,146)	(358)	(8,776)
plus: (releases) charges of provisions of accounts receivable and prepayments....	55	1,348	230	5,652	285	6,998
Operating profit.....	28,590	701,778	32,110	788,188	18,495	453,984

There are no non-GAAP measure adjustments between operating profit and profit.

Adjusted EBITDA should not be considered as an alternative to profit, operating profit, net cash provided by operating activities or any other measure of performance under IFRS and may not be comparable to similar non-GAAP measures used by other companies.

- (6) Interest expense on taxes payable, short- and long-term debt and other interest expense, excluding capitalized interest on borrowings. See note 3 above for an explanation of interest expense on taxes payable.
- (7) Short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities amounted to RR178 million (U.S.\$7 million), RR822 million (U.S.\$33 million) and RR1,128 million (U.S.\$46 million) for 2007, 2006 and 2005, respectively.
- (8) Total debt less cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations.

SUMMARY RESERVES INFORMATION

We estimate our reserves of natural gas, gas condensate and crude oil using the Russian reserves system, which differs significantly from SPE-PRMS, in particular with respect to the manner in which and the extent to which economic and commercial factors are taken into account in calculating reserves. See “Gazprom—Reserves and Production—Reserves” and “Overview of the Russian Gas Industry and Certain Regulatory Matters.”

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

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

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

Under SPE-PRMS Standards, reserves are classified as “proved,” “probable” and “possible,” based on both geological and commercial factors. We have included in this Base Prospectus information about our proved and probable reserves according to SPE-PRMS Standards as of December 31, 2007, 2006 and 2005.

The following table sets out our total ABC₁ natural gas, gas condensate and crude oil reserves as of the dates indicated. As of December 31, 2007, 2006 and 2005, only reserves owned by us are shown, disregarding reserves owned by our associated companies and joint ventures.

	As of December 31,		
	2007	2006	2005
	ABC ₁	ABC ₁	ABC ₁
Natural gas			
Aggregate reserves			
		(bcm)	
Reserves held through wholly-owned subsidiaries.....	28,518	29,320	28,529
Reserves held through majority-owned subsidiaries.....	1,267.4	534	602
Total for the Group ⁽¹⁾	<u>29,785.4</u>	<u>29,854</u>	<u>29,131</u>
Reserves by region			
Western Siberia (Urals federal district) and the Pechora Sea shelf and the Kara Sea shelf.....	22,456.8	22,806	22,341
Northern European Russia (Northwestern federal district) and the Barents Shelf.....	3,656.5	3,336	3,030
Southern Russia (Southern federal district).....	2,581.8	2,596	2,617
South Urals (Privolzhski federal district)	792.8	811	831
Southwestern Siberia, eastern Siberia and the Far East (Siberian federal district and the Far East federal district).	297.5	305	312
Total for the Group ⁽¹⁾	<u>29,785.4</u>	<u>29,854</u>	<u>29,131</u>

	As of December 31,		
	2007	2006	2005
	ABC1	ABC1	ABC1
Gas Condensate			
Aggregate reserves			
	(million tons)		
Reserves held through wholly-owned subsidiaries.....	1,207.9	1,205.6	1,205.1
Reserves held through majority-owned subsidiaries.....	4.6	11.4	11.2
Total for the Group ⁽¹⁾	<u>1,212.5</u>	<u>1,217.0</u>	<u>1,216.3</u>
	(mmbbls)		
Reserves held through wholly-owned subsidiaries.....	9,880.6	9,861.8	9,857.7
Reserves held through majority-owned subsidiaries.....	37.6	93.3	91.6
Total for the Group ⁽¹⁾	<u>9,918.3</u>	<u>9,955.1</u>	<u>9,949.3</u>
Reserves by region			
	(million tons)		
Western Siberia (Urals federal district) and the Pechora Sea shelf and the Kara Sea shelf.....	692.6	692.6	688.4
Northern European Russia (Northwestern federal district) and the Barents Shelf.....	50.7	47.3	45.9
Southern Russia (Southern federal district).....	389.2	392.4	395.8
South Urals (Privolzhski federal district).....	58.0	58.3	59.2
Southwestern Siberia, eastern Siberia and the Far East (Siberian federal district and the Far East federal district).....	21.9	26.4	27.0
Total for the Group ⁽¹⁾	<u>1,212.5</u>	<u>1,217.0</u>	<u>1,216.3</u>
	(mmbbls)		
Western Siberia (Urals federal district) and the Pechora Sea shelf and the Kara Sea shelf.....	5,665.5	5,665.5	5,631.1
Northern European Russia (Northwestern federal district) and the Barents Shelf.....	414.7	386.9	375.5
Southern Russia (Southern federal district).....	3,183.7	3,209.8	3,237.6
South Urals (Privolzhski federal district).....	474.4	476.9	484.3
Southwestern Siberia, eastern Siberia and the Far East (Siberian federal district and the Far East federal district).....	179.1	216.0	220.9
Total for the Group ⁽¹⁾	<u>9,918.3</u>	<u>9,955.1</u>	<u>9,949.3</u>
Crude Oil			
Aggregate reserves			
	(million tons)		
Reserves held through wholly-owned subsidiaries.....	586.1	616.4	623.2
Reserves held through majority-owned subsidiaries.....	923.8	770.5	734.3
Total for the Group ⁽¹⁾	<u>1,509.9</u>	<u>1,386.9</u>	<u>1,357.5</u>
	(mmbbls)		
Reserves held through wholly-owned subsidiaries.....	4,296.1	4,518.2	4,568.1
Reserves held through majority-owned subsidiaries.....	6,771.5	5,647.8	5,382.4
Total for the Group ⁽¹⁾	<u>11,067.6</u>	<u>10,166.0</u>	<u>9,950.5</u>

	As of December 31,		
	2007	2006	2005
	ABC1	ABC1	ABC1
(million tons)			
Reserves by region			
Western Siberia (Urals federal district) and the Pechora Sea shelf and the Kara Sea shelf.....	1,262.0	1,146.9	1,152.0
Northern European Russia (Northwestern federal district) and the Barents Shelf.....	60.6	60.0	49.4
Southern Russia (Southern federal district).....	5.4	4.5	3.5
South Urals (Privolzhski federal district)	133.9	134.3	118.6
Southwestern Siberia, eastern Siberia and the Far East (Siberian federal district and the Far East federal district) .	48.0	41.2	34.0
Total for the Group ⁽¹⁾	<u>1,509.9</u>	<u>1,386.9</u>	<u>1,357.5</u>
(mmbbls)			
Western Siberia (Urals federal district) and the Pechora Sea shelf and the Kara Sea shelf.....	9,250.5	8,406.8	8,444.2
Northern European Russia (Northwestern federal district) and the Barents Shelf.....	444.2	439.8	362.1
Southern Russia (Southern federal district).....	39.6	33.0	25.7
South Urals (Privolzhski federal district)	981.5	984.4	869.3
Southwestern Siberia, eastern Siberia and the Far East (Siberian federal district and the Far East federal district) .	351.8	302.0	249.2
Total for the Group ⁽¹⁾	<u>11,067.6</u>	<u>10,166.0</u>	<u>9,950.5</u>

Note:

(1) Totals may not sum due to rounding.

The following table shows our ABC₁ and proved and probable natural gas, gas condensate and crude oil reserves in the areas evaluated by DeGolyer and MacNaughton as of December 31, 2007, 2006 and 2005, excluding Gazprom Neft.

	As of December 31,											
	2007				2006				2005			
	Russian Reserves		SPE-PRMS Standards		Russian Reserves		SPE-PRMS Standards		Russian Reserves		SPE-PRMS ⁽¹⁾ Standards	
	ABC ₁ ⁽²⁾	Proved ⁽²⁾	Probable ⁽²⁾	Combined Proved and Probable ⁽²⁾⁽³⁾	ABC ₁ ⁽²⁾	Proved ⁽²⁾	Probable ⁽²⁾	Combined Proved and Probable ⁽²⁾⁽³⁾	ABC ₁ ⁽²⁾	Proved ⁽²⁾	Probable ⁽²⁾	Combined Proved and Probable ⁽²⁾⁽³⁾
Natural Gas (tcm)	28.3	18.3	2.5	20.8	27.8	18.2	2.6	20.8	27.6	16.0	4.7	20.7
Gas Condensate												
(million tons).....	1,092.0	568.9	117.2	686.1	1,096.3	528.9	130.1	659.0	1,094.3	507.9	184.7	692.6
(mmbbls) ⁽⁴⁾	8,932.6	4,653.6	958.7	5,612.3	8,967.7	4,326.4	1,064.2	5,390.6	8,951.4	4,154.6	1,510.8	5,665.5
Crude oil												
(million tons).....	591.8	76.9	210.0	286.9	585.4	87.1	203.8	290.9	565.0	67.3	232.2	299.5
(mmbbls) ⁽⁴⁾	4,337.9	563.7	1,539.3	2,103.0	4,291.0	638.4	1,493.9	2,132.3	4,141.5	493.3	1,702.0	2,195.3
Total (mmboc)⁽⁴⁾.....	<u>179,957.5</u>	<u>113,004.3</u>	<u>17,223.0</u>	<u>130,227.3</u>	<u>177,000.7</u>	<u>112,162.8</u>	<u>17,872.1</u>	<u>130,034.9</u>	<u>175,656.8</u>	<u>98,887.9</u>	<u>30,895.9</u>	<u>129,783.8</u>

Notes:

- (1) In the evaluation of our reserves as of December 31, 2005, DeGolyer and MacNaughton applied certain provisions of the SEC Standards. See "Gazprom—Reserves and Production—Differences between SPE-PRMS Standards and SEC Standards."
- (2) Includes 100% of the reserves of the Gubkinskoye field. ZAO Purgaz ("Purgaz"), our 51% owned subsidiary, holds the license for the Gubkinskoye field.
- (3) Totals may not sum due to rounding.
- (4) Amounts in barrels differ from those provided in the letter from DeGolyer and MacNaughton attached as Appendix A because in this Base Prospectus we use a conversion rate from metric tons of crude oil to barrels of one ton = 7.33 barrels, a conversion rate from one thousand cubic meters of natural gas to barrels of oil of one mcm = 5.89 barrels, and a conversion rate from metric tons of gas condensate to barrels of gas condensate of one ton = 8.18 barrels. Amounts in barrels provided in the letter from DeGolyer and MacNaughton are calculated based on the specific gravities of each field.

The following table sets out Gazprom Neft's ABC₁ and SPE-PRMS proved and probable natural gas and crude oil reserves in the areas evaluated by Miller and Lents as of December 31, 2007 and 2006 and DeGolyer and MacNaughton as of December 31, 2005.

	As of December 31,											
	2007				2006				2005			
	Russian Reserves		SPE-PRMS Standards		Russian Reserves		SPE-PRMS Standards		Russian Reserves		SPE-PRMS ⁽¹⁾ Standards	
	ABC ₁	Proved ⁽²⁾	Probable	Combined Proved and Probable	ABC ₁	Proved ⁽²⁾	Probable	Combined Proved and Probable	ABC ₁	Proved ⁽²⁾	Probable	Combined Proved and Probable
Crude oil (million tons).....	818.9	650.1	195.5	845.6	703.1	601.8	173.8	775.6	699.9	461.5	470.7	932.2
(mmbbls) ⁽³⁾	6,002.5	4,765.2	1,433.0	6,198.2	5,153.7	4,411.2	1,274.0	5,685.1	5,130.3	3,382.8	3,450.2	6,833.0
Natural gas (bcm).....	100.6	20.6	1.8	22.4	94.8	29.5	3.6	33.1	71.3	66.8	81.3	148.1
Total (mmboc)⁽³⁾.....	6,595.1	4,886.6	1,443.6	6,330.2	5,712.1	4,584.9	1,295.2	5,880.1	5,550.2	3,776.2	3,929.1	7,705.3

Notes:

- (1) In the evaluation of our reserves as of December 31, 2005, DeGolyer and MacNaughton applied certain provisions of the SEC Standards. See "Gazprom—Reserves and Production—Differences between SPE-PRMS Standards and SEC Standards."
- (2) Includes proved developed and proved undeveloped reserves.
- (3) Amounts in barrels differ from those provided in the letter from Miller and Lents attached as Appendix B because in this Base Prospectus we use a conversion rate from metric tons of crude oil to barrels of one ton = 7.33 barrels and a conversion rate from one thousand cubic meters of natural gas to barrels of oil of one mcm = 5.89 barrels. Amounts in barrels provided in the letter from Miller and Lents are calculated based on the specific gravities of each field.

SUMMARY PRODUCTION INFORMATION

The following table presents summary production data by region. Our production activities are more fully described in “Gazprom—Reserves and Production.”

	For the year ended December 31,					
	2007		2006		2005 ⁽¹⁾	
	Volume	Percentage of overall production	Volume	Percentage of overall production	Volume	Percentage of overall production
Western Siberia (Urals federal district)						
Natural gas ⁽²⁾ (bcm)	510.6	93.1	517.9	93.2	516.4	93.0
Gas condensate (thousand tons)	6,218.3	55.2	6,291.0	55.3	6,380.3	55.5
(mmbbls)	50.9		51.5		52.2	
Crude oil (thousand tons)	31,737.9	93.4	31,922.7	93.8	8,427.0	88.8
(mmbbls)	232.6		234.0		61.8	
Combined (mmboe)	3,290.9	92.1	3,335.9	92.2	3,155.9	91.9
Northern European Russia (Northwestern federal district)						
Natural gas (bcm)	2.8	0.5	2.7	0.5	2.8	0.5
Gas condensate (thousand tons)	209.8	1.9	231.4	2.0	249.8	2.2
(mmbbls)	1.7		1.9		2.0	
Crude oil (thousand tons)	81.1	0.2	71.4	0.2	89.4	0.9
(mmbbls)	0.6		0.5		0.7	
Combined (mmboe)	18.8	0.5	18.3	0.5	19.2	0.6
Southern Russia (Southern federal district)						
Natural gas (bcm)	13.4	2.4	13.4	2.4	13.5	2.4
Gas condensate (thousand tons)	4,277.8	37.9	4,255.8	37.4	4,243.2	36.9
(mmbbls)	35.0		34.8		34.7	
Crude oil (thousand tons)	78.9	0.2	109.9	0.3	123.2	1.3
(mmbbls)	0.6		0.8		0.9	
Combined (mmboe)	114.5	3.2	114.5	3.2	115.1	3.4
South Urals (Privolzhski federal district)						
Natural gas (bcm)	18.7	3.4	18.6	3.4	18.7	3.4
Gas condensate (thousand tons)	278.5	2.5	266.6	2.3	269.1	2.3
(mmbbls)	2.3		2.2		2.2	
Crude oil (thousand tons)	641.9	1.9	596.9	1.8	556.0	5.9
(mmbbls)	4.7		4.4		4.1	
Combined (mmboe)	117.1	3.3	116.2	3.2	116.4	3.4
Southwestern Siberia and the Far East (Siberian and Far East federal districts)						
Natural gas ⁽²⁾ (bcm)	3.2	0.6	3.3	0.6	3.5	0.6
Gas condensate (thousand tons)	290.0	2.6	326.9	2.9	357.6	3.1
(mmbbls)	2.4		2.7		2.9	
Crude oil (thousand tons)	1,442.6	4.2	1,316.3	3.9	290.8	3.1
(mmbbls)	10.6		9.6		2.1	
Combined (mmboe)	31.8	0.9	31.7	0.9	25.6	0.8
Total⁽³⁾						
Natural gas ⁽²⁾ (bcm)	548.6	100	556.0	100	555.0	100
Gas condensate (thousand tons)	11,274.4	100	11,371.8	100	11,500.0	100
(mmbbls)	92.2		93.0		94.1	
Crude oil (thousand tons)	33,982.4	100	34,017.2	100	9,486.4	100
(mmbbls)	249.1		249.3		69.5	
Combined (mmboe)	3,572.5	100	3,617.1	100	3,432.6	100

Notes:

(1) Production volumes for 2005 have been recalculated in accordance with our reserves and production calculation methodology consistent with our accounting consolidation principles.

(2) Includes oil gas produced by Gazprom Neft. See “Gazprom—Gazprom Neft’s crude oil and gas production.”

(3) Totals may not sum due to rounding.

SUMMARY SALES AND OPERATING INFORMATION

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

The U.S. dollar amounts below were not included in our consolidated financial information and are provided for convenience only. They should not be construed as representations that the RR amounts have been or could be converted into U.S. dollars at that or any other rate or as being representative of U.S. dollar amounts that would have resulted if we reported in U.S. dollars. The U.S. dollar amounts have been translated from the RR amounts at the rate of RR24.5462 = U.S.\$1.00, which was the CBR rate on December 31, 2007.

	Year ended December 31,					
	2007		2006		2005	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
	(amounts in millions)					
Natural gas sales						
Domestic sales ⁽¹⁾	16,273	399,452	14,555	357,274	12,684	311,336
Export sales ⁽¹⁾	58,465	1,435,099	56,739	1,392,715	39,982	981,410
FSU ⁽¹⁾	11,144	273,550	9,905	243,133	5,353	131,393
Far Abroad ⁽¹⁾	47,321	1,161,549	46,833	1,149,582	34,629	850,017
Total	74,739	1,834,551	71,294	1,749,989	52,666	1,292,746

Note:

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

The following table sets out our average realized prices per mcm of natural gas (including excise tax and customs duties and net of VAT) for the periods indicated in nominal terms (actual prices realized at the time). Our sales to Far Abroad and the FSU (other than to Belarus) are denominated in convertible currencies, mainly in U.S. dollars.

	Year ended December 31,					
	2007		2006		2005	
	Average price ⁽¹⁾	Nominal RR	Average price ⁽¹⁾	Nominal RR	Average price ⁽¹⁾	Nominal RR
	(amounts in millions per mcm)					
Far Abroad	U.S.\$269.4	6,891.4	U.S.\$261.9	7,119.4	U.S.\$192.4	5,443.6
FSU	U.S.\$110.9	2,835.3	U.S.\$88.6	2,408.4	U.S.\$60.7	1,716.1
Russia	RR1,301.1	1,301.1	RR1,129.4	1,129.4	RR1,014.1	1,014.1

Note:

(1) Average realized normalized prices and not convenience translations of RR prices.

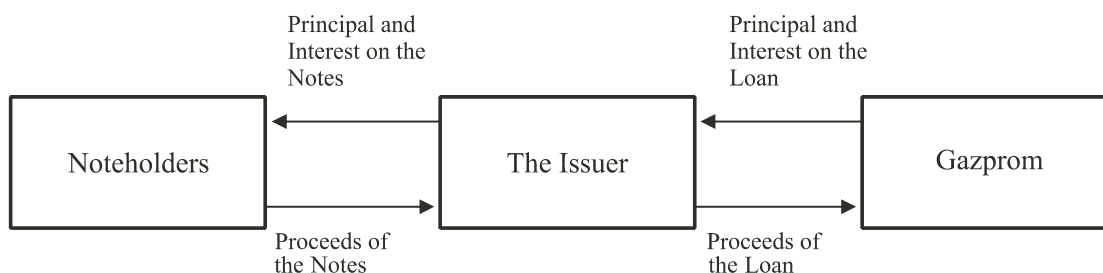
Information with respect to sales of gas condensate, crude oil and refined products including Gazprom Neft’s operations is set forth under “Gazprom—Corporate Structure—Marketing.”

OVERVIEW OF THE PROGRAMME

The following overview contains basic information about the Notes and Loans and should be read in conjunction with, and is qualified in its entirety by, the information set forth under “Facility Agreement” and “Terms and Conditions of the Notes” appearing elsewhere in this Base Prospectus.

Summary of Loans under the Programme

Each transaction will be structured as a Loan to Gazprom by the Issuer. The Issuer will issue Notes to Noteholders for the sole purpose of funding such Loan (and such Loan will in effect provide 100% collateralization) for such Notes. Each Series will be constituted by a supplemental trust deed which is supplemental to an amended and restated principal trust deed dated December 7, 2005 (together, the “Trust Deed”), each entered into between the Issuer and Deutsche Bank Trust Company Americas (the “Trustee”). Pursuant to the Trust Deed, the Issuer will: (i) charge by way of first fixed charge as security certain of its rights and interests under such Loan to the Trustee for the benefit of the Noteholders of the corresponding Series of Notes; and (ii) assign its rights under the relevant Loan Agreement to the Trustee as security (other than certain Reserved Rights, as defined in the Trust Deed) (together, the “Security Interests”) for its payment obligations in respect of such Series of Notes. As a consequence of the assignment of the rights under the Loan Agreement, the Trustee shall assume the rights of the Issuer (other than certain Reserved Rights, as defined in the Trust Deed) as set out in the relevant provisions of the Trust Deed. If and when the first fixed charge of certain of the Issuer’s rights and interests under any Loan is enforced, the Trustee will assume the rights of the Issuer under such 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. Each Series of Notes will be made on a limited recourse basis and the Issuer will not have any obligations to the Noteholders of such Series of Notes save for to account to the Noteholders for amounts equivalent to the amounts of payments of principal and interest under the corresponding Loan if and to the extent received by it from Gazprom.



Notes to be issued under the Programme and the corresponding Loans

Issuer.....	Gaz Capital S.A., a “ <i>société anonyme</i> ” incorporated in Luxembourg with limited liability (the “Issuer”) with its registered office at 2, Boulevard Konrad Adenauer, L-1115, Luxembourg, Grand Duchy of Luxembourg, registered with the Luxembourg Register of Commerce and Companies under the number B-95071.
Gazprom (as the Borrower).....	Open Joint Stock Company Gazprom (the “Borrower” or “Gazprom”) with its registered office and business headquarters at 16 Nametkina Street, 117884 Moscow, Russia.
Description.....	Programme for the Issuance of Loan Participation Notes with limited recourse pursuant to which the Issuer may issue loan participation notes (the “Notes”).
Programme Size.....	Up to U.S.\$30,000,000,000 (or its equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time. Gazprom may increase the amount of the Programme in accordance with the Dealer Agreement (as defined herein). For the purpose of calculating the aggregate principal amount of Notes outstanding, Notes issued at a premium shall be treated as having been issued at the amount of their net proceeds received by the Issuer.
Arrangers	Deutsche Bank AG, London Branch and UBS Limited.
Dealers	Deutsche Bank AG, London Branch, UBS Limited, ABN AMRO Bank N.V., Bayerische Hypo- und Vereinsbank AG, Commerzbank Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, J.P. Morgan Securities Ltd., Merrill Lynch International, METROPOL Investment Financial Company Ltd., Morgan Stanley & Co. International plc, National Reserve Bank, Renaissance Securities (Cyprus) Limited and Joint Stock Commercial Bank Rosbank. Pursuant to the terms of the Dealer Agreement, the Issuer, on Gazprom’s instructions, may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Series of Notes or in respect of the whole Programme. References in this Base Prospectus to “Permanent Dealers” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to “Dealers” are to all Permanent Dealers and all persons appointed as dealers in respect of one or more Series of Notes.
Trustee	Deutsche Bank Trust Company Americas.
Principal Paying Agent	Deutsche Bank AG, London Branch, unless it is specified in the relevant Final Terms relating to a Series of Notes that another principal paying agent is appointed in respect of that Series. References in this Base Prospectus to “Principal Paying Agent” are to Deutsche Bank AG, London Branch or such other alternative principal paying agent, as the case may be.
Registrars	Deutsche Bank Luxembourg S.A., and/or, in relation to Notes sold pursuant to Rule 144A, Deutsche Bank Trust Company Americas, unless it is specified in the relevant Final Terms relating to a Series of Notes that an alternative registrar is appointed in respect of that Series. References in this Base Prospectus to “Registrar” are to Deutsche Bank Luxembourg S.A., Deutsche Bank Trust Company Americas or such alternative registrar, as the case may be.

Paying Agents.....	Deutsche Bank AG, London Branch, Deutsche International Corporate Services (Ireland) Limited and Deutsche Bank Luxembourg S.A., and/or, in relation to Notes sold pursuant to Rule 144A, Deutsche Bank Trust Company Americas, unless it is specified in the relevant Final Terms relating to a Series of Notes that another paying agent is appointed in respect of that Series. References in this Base Prospectus to “Paying Agents” are to Deutsche Bank AG, London Branch, Deutsche International Corporate Services (Ireland) Limited, Deutsche Bank Luxembourg S.A., Deutsche Bank Trust Company Americas or such alternative paying agent, as the case may be.
Transfer Agents.....	Deutsche Bank AG, London Branch, and Deutsche Bank Luxembourg S.A., and/or, in relation to Notes sold pursuant to Rule 144A, Deutsche Bank Trust Company Americas, unless it is specified in the relevant Final Terms relating to a Series of Notes that another transfer agent is appointed in respect of that Series. References in this Base Prospectus to “Transfer Agents” are to Deutsche Bank AG, London Branch, Deutsche Bank Luxembourg S.A., Deutsche Bank Trust Company Americas or such alternative transfer agent, as the case may be.
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. The specific terms of each Series will be completed in a final terms document (each, “Final Terms”) which shall complete the Terms and Conditions of the Notes.
Issue Price of Notes	Notes may be issued at their principal amount or at a discount or premium to their principal amount.
Status of the Notes	Each Series of Notes will constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the corresponding Loan and to account to the Noteholders for amounts equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to such Loan, all as more fully described in “Terms and Conditions of the Notes-1. Status.”
Ranking of the Loans.....	None of the Loans will be secured by any collateral. Each Loan will not be secured by any collateral, will rank equal in right of payment with other outstanding and unsecured indebtedness of Gazprom but will effectively rank below all of our secured debt and the debt and other liabilities of our subsidiaries.
Security	Each Series of Notes will be secured by a first fixed charge on: <ul style="list-style-type: none"> • all principal, interest and other amounts payable by Gazprom to the Issuer under the relevant Loan Agreement and the right to receive all sums payable by Gazprom under any claim, award or judgment relating to such Loan Agreement; and • all of the Issuer’s rights, title and interest in and to all sums of money held from time to time in an account specified in the relevant Final Terms, together with the debts represented thereby (including interest from time to time earned thereon) pursuant to the Trust Deed, in each case, other than certain Reserved Rights and any amounts in respect thereof.

Assignment of Rights.....	The Issuer with full title guarantee will assign absolutely its rights under the relevant Loan Agreement (save for those rights charged or excluded above) to the Trustee upon the closing of the offering of the corresponding Series of Notes.
Form of the Notes	The Notes will be issued in registered form. Each Series of Notes will be represented by a global unrestricted Note (each a “Regulation S Global Note”) and, in the case of Rule 144A Notes, a global restricted Note (each a “Rule 144A Global Note” and together with any Regulation S Global Notes, the “Global Notes”), in each case without interest coupons. Global Notes will be exchangeable for Notes in definitive form in the limited circumstances specified in the Global Notes.
Clearing Systems	DTC (in the case of Rule 144A Notes), Clearstream, Luxembourg and Euroclear and, in relation to any Series, such other clearing system as may be agreed between the Issuer, the Borrower, the Paying Agent, the Trustee and the relevant Dealer. Application may be made for trading of Rule 144A Notes in PORTAL, as specified in the applicable Final Terms.
Initial Delivery of Notes	On or before the issue date for each Series, the Regulation S Global Notes shall be deposited with Deutsche Bank AG, London Branch as a common depository for Euroclear and Clearstream, Luxembourg and the Rule 144A Global Notes, if any, will be deposited with Deutsche Bank Trust Company Americas as custodian for DTC, as the case may be. Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Borrower, the Paying Agent, the Trustee and the relevant Dealer(s). Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.
Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Borrower and the relevant Dealers.
Maturities.....	Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, Gazprom and the relevant Dealers.
Denomination	Notes will be in such denominations as may be specified in the relevant Final Terms, subject to (i) a minimum denomination for all Notes of €50,000 (or its equivalent in any other currency as at the date of issue of the Notes); and (ii) unless otherwise permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies). Notes resold pursuant to Rule 144A shall be in denominations of U.S.\$100,000 (or its equivalent rounded upwards as agreed between the Issuer, Gazprom and the relevant Dealer(s)) or higher integral multiples of U.S.\$1,000.
Rate of Interest	The Notes may be issued on a fixed rate or floating rate basis.
Fixed Rate Notes	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.

Floating Rate Notes.....	<p>Floating Rate Notes will bear interest determined separately for each Series and corresponding Loan as follows:</p> <ul style="list-style-type: none"> (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or (ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin.
Interest Periods and Interest Rates	<p>The length of the interest periods for the Notes and the applicable interest rate may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.</p>
Redemption	<p>The relevant Final Terms will specify the basis for calculating the redemption amounts payable and whether there will be any put or call options. Unless permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).</p>
Issuer's Restrictions and Covenants	<p>So long as any Note remains outstanding, the Issuer will not, without the consent of the Trustee, among other things, incur any other indebtedness for borrowed moneys, or enter into other transactions or engage in any business (other than transactions contemplated by this Base Prospectus), declare any dividends or have any subsidiaries. See "Terms and Conditions of the Notes-4. Restrictive Covenants."</p>
Withholding Tax and Increased Costs	<p>If any payments to be made by the Issuer under any Notes become subject to any withholding tax imposed by the Russian Federation or Luxembourg or any taxing authority thereof, the Issuer will be required (subject to certain customary exemptions and subject to receiving funds from Gazprom in respect thereof) to pay an additional amount to compensate Noteholders for any amounts so withheld.</p> <p>If any payments to be made by Gazprom under a Loan Agreement become subject to any withholding tax imposed by the Russian Federation or Luxembourg (or following the enforcement of the security created in the Trust Deed, the then jurisdiction of the Trustee) or any taxing authority thereof, or certain other circumstances result in the Issuer incurring any increased costs associated with the corresponding Loan, Gazprom will be required to pay an additional amount necessary to compensate the Issuer for the tax withheld or the increased cost to the Issuer.</p>
Early Redemption	<p>If Gazprom is required to pay additional amounts under a Loan Agreement as described above, it will have the right to prepay the corresponding Loan, upon not less than 10 days' notice to the Issuer, in whole (but not in part) at the principal amount thereof, together with accrued and unpaid interest and additional amounts,</p>

	<p>if any, to the date of repayment on the next Interest Payment Date (in the case of a Floating Rate Loan) or at any time (in the case of a Fixed Rate Loan).</p> <p>If it becomes unlawful for the Issuer to fund a Loan or allow such Loan to remain outstanding under the relevant Loan Agreement or allow the corresponding Notes to remain outstanding, as more fully described in the Facility Agreement, the Issuer may require such Loan to be repaid in full, upon giving notice to Gazprom and the Trustee, at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, to the date of repayment.</p> <p>In such circumstances, the Issuer will be required to redeem the Notes corresponding to such Loan, at their principal amount, plus accrued and unpaid interest and additional amounts, if any, to the date of such repayment.</p>
Relevant Events.....	<p>In the case of certain events in relation to the Issuer (as defined in the “Terms and Conditions of the Notes”), the Trustee may, subject as provided in the Trust Deed, enforce the security created in the Trust Deed in favor of the Noteholders.</p>
Certain Restrictions and Covenants	<p>The Issuer will have the benefit of certain covenants made by Gazprom, including a negative pledge and restrictions on mergers and disposals, all as fully described in the relevant Loan Agreement.</p>
Events of Default	<p>In the case of an Event of Default (as defined in the relevant Loan Agreement), the Trustee may, subject as provided in the Trust Deed, require the Issuer to declare all amounts payable under the relevant Loan Agreement by Gazprom to be due and payable.</p>
Use of Proceeds of the Notes and the Loans.....	<p>The Issuer will lend the net proceeds of the offering of each Series of Notes to Gazprom. We intend to use the net proceeds from such offering for general corporate purposes.</p>
Further Issues	<p>The Issuer may from time to time issue further Notes of any Series on the same terms as existing Notes and such further Notes shall be consolidated and form a single Series with such existing Notes of the same Series.</p>
Listing and Trading	<p>Application will be made, where specified in the relevant Final Terms, for a Series of Notes to be listed on the Official List of the Irish Stock Exchange and to admit them to trading or the Market or such other stock exchange as shall be specified in the relevant Final Terms or the Series of Notes will remain unlisted.</p>
Rating	<p>A Series of Notes issued under the Programme may be rated or unrated. If a Series of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Programme and will be specified in the relevant Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.</p>
Governing Law.....	<p>The Notes will be governed by English law. The provisions of articles 86 to 94-8 of the Luxembourg law of August 10, 1915, as amended, on commercial companies are excluded.</p>
Selling Restrictions	<p>United Kingdom, United States, Russian Federation, Italy, the Netherlands and any other jurisdiction relevant to any Series. See “Subscription and Sale.”</p>

RISK FACTORS

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

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

Risks Relating to Our Business

The prices of the natural gas we sell in Europe and some FSU countries under long-term contracts are linked to international prices for oil products. A decline in international prices for crude oil and oil products could adversely affect our natural gas, crude oil and refined product sales in Europe and other markets where we sell under such terms.

We sell a substantial portion of our natural gas in Europe, which is our primary source of foreign currency revenues and cash flows. For over 40 years, we and our predecessors have sold natural gas to purchasers in western Europe, generally pursuant to long-term contracts with prices linked to international prices for oil products. Some of our FSU export customers now purchase natural gas on similar terms. Changes in the prices we realize on natural gas under our long-term contracts with European or other customers typically lag about six to nine months behind changes in oil product prices. Such prices have fluctuated widely in response to changes in many factors over which we have no control. These factors include, but are not limited to:

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

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

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

Fluctuations in international prices for energy resources also affect the prices that we receive for our sales of crude oil and refined products. For example, lower prices may reduce the amount of

crude oil that we can produce economically or reduce the economic viability of crude oil development or processing projects planned or in development. We may reduce our planned capital expenditures if international crude oil or petroleum product prices fall below the price assumptions used in our estimates.

We are required to supply a significant portion of natural gas to customers in Russia at prices that are regulated by the Government.

We are, and are likely to remain for the foreseeable future, a natural monopoly with respect to our activities in natural gas transportation through trunk pipelines in Russia. In addition, domestic natural gas prices are regulated by governmental authorities and are currently significantly lower than the prices we charge to western European off-takers even after netting back customs duties and transportation costs. Moreover, domestic wholesale natural gas prices for household consumers are currently lower than wholesale natural gas prices for industrial and commercial end users.

Average natural gas sales prices for Russian customers have increased substantially in recent years. Our realized average price for natural gas sold in Russia increased from RR535.7/mcm in 2002 to RR1,129.4/mcm in 2006 and RR1,301.1/mcm in the year ended December 31, 2007. Our realized average prices for natural gas sold to Far Abroad were RR3,536.6/mcm in 2002, RR7,119.4/mcm in 2006 and RR6,891.4/mcm in the year ended December 31, 2007. At a meeting of the Government held on May 6, 2008, a series of marginal domestic price increase rates were approved for the period from 2009 to 2011, See “Gazprom—Marketing—Domestic market conditions.”

In 2007 and 2008, domestic gas prices increased in accordance with the rates established by the Government. No assurance can be given, however, that natural gas prices in Russia will continue to increase, that consumers will be willing or able to pay increased natural gas prices or that the Government will not revoke these natural gas price increases. If the natural gas prices we charge to Russian customers do not increase as proposed, our future results of operations, cash flows and financial condition could be adversely affected.

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

Our cash flows could be adversely affected by the limited ability, or the inability, of our customers in Russia and FSU countries to pay for our natural gas. Though the share of non-cash settlements in our total settlements has declined in recent periods, there can be no assurance that amounts owed to us by our customers in Russia and the FSU will be paid in full or, if paid in full, that payment will be in cash. As is the case with many Russian companies, we have had to make use of and 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 gas supplies. In the years ended December 31, 2007, 2006 and 2005, approximately 8%, 13% and 15%, respectively, of our settlements of accounts payable and accrued charges were made via non-cash settlements. Approximately 3%, 7% and 10% of our settlements of accounts receivable during the years ended December 31, 2007, 2006 and 2005, respectively, were settled via mutual settlements or other non-cash settlements. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Certain Factors Affecting our Results of Operations—Non-cash settlements.” Non-cash settlement of transactions has had in the past, and may continue to have in the future, an adverse effect on our ability to fund operational or capital expenditures required to be made in cash and to make tax and other mandatory payments when due.

In accordance with the Gas Supply Law, Russian consumers are obliged to pay for natural gas supplies and transportation services. If consumers fail to make such payments, suppliers have the right to limit or suspend natural gas supplies to such consumers in accordance with specific procedures provided for by a number of Government resolutions.

We bear a substantial tax burden.

We are subject to a broad range of taxes imposed at federal, regional and local levels and we are one of the largest sources of tax revenue to the federal authorities, as well as to the regional and local authorities in those regions and locations and localities in which we operate. Political pressure on federal, regional and local authorities aimed at addressing social and economic issues increases the risk that the resolution of these problems might include raising tax rates, which may result in an increase of our substantial tax burden.

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

The Russian Federation currently controls more than 50% of Gazprom's shares. As of May 8, 2008, it held 38.37% of Gazprom's shares directly and 11.63% indirectly, of which 10.74% are held through Rosneftegaz, a wholly state-owned company, and 0.89% through another state-controlled company, Rosgazifikatsiya. Moreover, as of May 8, 2008, our subsidiaries (excluding Gazprombank) owned approximately 0.13% of Gazprom's shares, which they are entitled to vote as owners. See "Shareholding Structure of Gazprom." Nominees of the Russian Federation, including Mr. Miller, the Deputy Chairman of Gazprom's Board of Directors and Chairman of Gazprom's Management Committee, currently hold six of the 11 seats on Gazprom's Board of Directors. On May 7, 2008, Mr. Dmitri Medvedev, the former Chairman of Gazprom's Board of Directors, became President of the Russian Federation (having previously served as First Deputy Prime Minister of the Russian Federation). Mr. Zubkov, the current Chairman of Gazprom's Board of Directors, serves as the First Deputy Prime Minister of the Russian Federation. State authorities regulate the prices we charge for gas in the domestic market, the tariffs we charge for the transportation of third parties' gas through the UGSS and other matters affecting our business. Through its share ownership, representation on Gazprom's Board of Directors and role as our regulator, the Government has a strong influence over our operations. The Government has previously required Russian companies, including us, to take certain 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 other shareholders.

We may not be successful in our efforts to integrate recent acquisitions.

We have acquired, and may continue to acquire in the future, businesses and legal entities which are engaged with activities different from ours. The integration of such newly acquired businesses may be difficult for a variety of reasons, including differing culture or management styles, poor records or internal controls and difficulty in establishing immediate control over cash flows. As a result, the need to integrate recently acquired assets or any potential future acquisitions poses risks to our existing operations, including:

- additional demands placed on our senior management, who are also responsible for managing our existing operations;
- increased overall operating complexity of our business, requiring greater personnel and other resources;
- additional cash expenditures to integrate recent acquisitions;
- incurrence of additional debt to finance acquisitions and higher debt service costs related thereto; and
- the need to attract and retain sufficient numbers of qualified management and other personnel.

Any failure to successfully integrate past or future acquisitions could adversely affect our business, financial condition and results of operations. Moreover, even if we were successful in integrating newly acquired assets and acquiring additional assets, expected synergies and cost savings may not materialize, resulting in lower than expected profit margins.

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

The possibility that we may be reorganized into several smaller and less powerful production and transportation companies, or that certain of our operations may be re-allocated to other entities, has been the subject of domestic and international press speculation. Although Government officials and senior members of our management have stated that the reorganization or division of Gazprom is not currently planned, and moreover the Gas Supply Law provides that the transfer of ownership to the UGSS may only be effected by federal law, there are no assurances that we are protected against the risks of a state-led reorganization.

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

The licensing regime in Russia for the exploration, development and production of natural gas, gas condensates and crude oil is governed primarily by the Federal Law "On Subsoil" No. 2395-1 dated January 21, 1992 (the "Subsoil Resources Law") and numerous regulations issued thereunder. We currently conduct our operations under multiple exploration and production licenses, substantially

all of which are held by our subsidiaries and related entities. Our production licenses for our major natural gas and oil production fields extend through the period between 2012 and 2028. In accordance with current legislation, we plan to extend our licenses that have a fixed term to the end of the economic life of the field to which such license relates. Although historically we have been able to obtain such extensions, we may fail to do so in the future.

Most of our licenses also provide that they may be terminated if we fail to comply with license requirements, do not make timely payments of levies and taxes for the use of the subsoil, systematically fail to provide information, go bankrupt or fail to fulfill any capital expenditure and/or production obligations. There can be no assurances that we will not be inspected by government regulators in the future, and that the decisions will always be favorable to us. If we fail to fulfill the specific terms of any of our licenses or if we operate in the license areas in a manner that violates Russian law, Government regulators may impose fines on us or suspend, amend or terminate our licenses. Any suspension, amendment or termination of our licenses could have an adverse effect on our operations, financial position or the value of our assets.

We must increase our capital expenditures in order to satisfy the anticipated demand of our customers, replace diminishing natural gas and crude oil reserves in our leading fields and maintain and develop our gas transportation system.

Over the next several years, we must further improve our natural gas, gas condensate and crude oil production capabilities and natural gas transportation system to meet the anticipated demand of customers in western Europe, Russia and certain FSU countries and offset declines in our main producing fields, particularly our Medvezhye, Urengoi and Yamal fields. In order to satisfy expected demand, we plan to further develop satellite fields in western Siberia and fields in new gas producing regions (such as in the shelf of the Barents Sea, the Yamal Peninsula, the shelf of the Arctic seas, eastern Siberia and the Far East), and sustain Gazprom Neft's current oil production levels, which may require increased exploration and development activity. We plan to provide for annual production of 560-570 bcm of natural gas by 2010, 580-590 bcm by 2020 and 610-630 bcm by 2030. We also plan to provide for annual production of 80 million tons of oil per year by 2020. However, if we are unsuccessful in meeting our long-term production targets, it could adversely affect our ability to meet our contractual export commitments and domestic supply obligations.

We own and operate the UGSS, which is responsible for the 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 more than 40 years. Most of the pipeline is over 10 years old, and some portions of the pipeline are over 30 years old. A significant part of the pipeline is protected by electrochemical processes of limited duration and effectiveness. In addition, large segments of the network are located in regions with harsh climates, where construction, maintenance and refurbishment are difficult and costly. Considerable sums of money are required each year to maintain and develop the UGSS.

These activities will require significant capital expenditures over the next several years. We expect to fund such capital expenditures through internal sources and external financing. There can be no assurance, however, that we will be able to generate and raise sufficient funds to meet such capital requirements in the future or to do so at a reasonable cost. The global debt capital markets have experienced a significant disruption characterized by severe reductions in liquidity, especially for financial institutions, inability of numerous companies to obtain financing in the capital markets and by a general increase in the cost of borrowing for private-sector borrowers. This market disruption may adversely impact our ability to borrow in the bank or capital markets and may increase the cost of such borrowing. Lack of sufficient funds in the future may require us to delay or abandon some or all of our anticipated projects. In addition, our plans are based on our expectations that in the future there will be increases in the demand for gas in the domestic and international markets. If the demand for gas decreases, it may be necessary for us to refrain from several projects the implementation of which would lead to excessive gas production and transportation capacities.

Exploratory drilling involves numerous risks, including the risk that we will not discover any commercially productive natural gas or crude oil reserves.

We are exploring in various geographical regions, including western Siberia and the Barents Sea, which are characterized by their remoteness from population centers, challenging environmental conditions and high costs. For these reasons, the cost of drilling, completing and operating wells is

often uncertain. As a result, we may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment. In addition, our overall drilling activity or drilling activity in particular project areas may be unsuccessful in that we may not find commercially productive reservoirs.

We encounter competition in our largest business, natural gas sales, from alternative fuel sources and other natural gas producers and suppliers.

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

We encounter competition in Europe from other natural gas suppliers (especially from Algeria, Norway and the Netherlands), which could affect the prices and volumes of our sales of natural gas to Europe. If an oversupply of natural gas occurs, natural gas purchasers may be able to negotiate lower prices on supply contracts with producers such as ourselves. An eventual decline in global prices for liquid hydrocarbons, economic slowdown in Europe or the emergence of new large suppliers of natural gas could result in an oversupply, and downward pressure on natural gas prices.

Currently, according to the Federal Law “On gas export” No. 117-FZ dated July 18, 2006 (the “Gas Export Law”), as the owner of the UGSS, we have the exclusive right to export gas or liquefied natural gas produced in any hydrocarbon field within Russia. However, according to press reports, certain Government bodies are developing amendments to the Gas Supply Law to allow independent gas suppliers to participate in gas export activities. No exact scheme of such participation has been publicly announced.

In addition, the western European gas market is still undergoing significant structural change as a result of the EU Gas Directive, which was initially adopted in August 1998 and subsequently replaced by a new Gas Directive, adopted in June 2003 (the “Gas Directive”). The purpose of the Gas Directive is to deregulate and liberalize the EU gas market by introducing greater competition into the market and reducing gas prices for the end-user. See “Overview of the Russian Gas Industry and Certain Regulatory Matters – Gas Directive.” As a result of the liberalization of the EU natural gas market, short-term contracts and spot transactions involving natural gas have become more popular. In time, this may have a significant effect on the state of the market. The emergence of a spot market may also make it more difficult for us to negotiate long-term supply contracts under which we currently export a majority of our natural gas and may decrease the period between potential pricing revisions under new long-term contracts, which are currently set at three years for most contracts.

Russia has signed the Energy Charter Treaty, an international treaty for establishing and improving the legal framework for corporate international cooperation in energy matters, but the State Duma has not yet ratified the Treaty. See “Overview of the Russian Gas Industry and Certain Regulatory Matters.” We believe that ratification of the Energy Charter Treaty would result in greater access by third parties to our pipelines, including for the transportation of natural gas from central Asia to European markets. Accordingly, ratification of the Energy Charter Treaty in its current form by the State Duma could also lead to substantially increased competition and affect our long-term supply contracts with European customers. However, high ranking Russian state officials have claimed in recent years that the Energy Charter Treaty in its current form is not in the best interests of Russia.

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

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

Our gas and crude oil exploration, production and transportation operations may be adversely affected by many factors, including the breakdown or failure of equipment or processes, performance below our expectations, including efficiency indicators, labor disputes, natural disasters, weather conditions and terrorist attacks or sabotage to our extensive pipeline network. Although there have been no significant delays or curtailments of the supply of natural gas to our customers recently, no

assurance can be given that such delays or curtailments will not occur in the future due to the stress and corrosion of pipelines, defective construction of compressor stations, problems associated with the harsh climate or insufficient maintenance or refurbishment of the network.

The insurance coverage of our assets and operations is limited. Insurance covers Gazprom's and our main subsidiaries' operational risks, but we do not have full insurance coverage for all of our activities. See "Gazprom—Insurance." Therefore, in a number of cases, we would have to cover financial losses from the above-mentioned or other factors out of our own cash flow.

We are dependent on the links between our gas pipeline network and other gas pipeline networks that we do not control for the export of natural gas.

We are dependent on the links between our gas pipeline network and other gas pipeline networks that we do not control for the export of natural gas. Although our strategy includes seeking to diversify our export routes, we are currently dependent on pipelines in Ukraine and Belarus to deliver a significant portion of the natural gas we sell to customers in western Europe, and we may not be able to prevent eventual disruptions in our transit of natural gas through Ukraine and Belarus. At the same time, Belarus is dependent on us to meet its domestic requirements for natural gas, and Ukraine depends on us for the transit of the gas it consumes. Although this interdependence is taken into account in negotiations over gas deliveries and gas transit, we currently have no control over the pipeline systems in Ukraine.

In the past, some of our gas has been diverted as it passed through Ukraine, including, most recently, at the beginning of 2006 in connection with our natural gas price dispute with Ukraine. We can only monitor the flow of natural gas into and out of Ukraine and, therefore, may not be able to detect losses exactly where they occur. In addition, in October 2007 and March 2008, we were involved in debt settlement disputes with Ukraine regarding its indebtedness for gas deliveries. In the period from March 3 to March 5, 2008, we reduced our deliveries to Ukraine by up to 50%, but continued to supply our European customers through Ukraine in accordance with our contractual obligations. See "Gazprom—Marketing—The FSU". So far we have succeeded in coming to mutually acceptable agreements with our Ukrainian partners regarding debt settlement and gas supply conditions. Nevertheless, future disputes with Ukraine or Belarus, if any, could lead to a disruption of our exports to western Europe through pipelines crossing the territories of these countries. See "Gazprom—Gas Transportation—Natural gas transit through Ukraine and Belarus".

We have sought to expand our gas export capacity and to diversify our gas export routes through the Yamal-Europe pipeline and the Blue Stream pipeline (which are now completed), and we continue to invest further in other export-oriented projects, such as the Nord Stream project under the Baltic Sea and in developing our capacity to produce and sell LNG. We are also currently expanding our access to underground storage facilities in Europe. Our fulfillment of our current or planned projects may be affected by such factors as difficulties related to localized planning or construction processes and our ability to obtain financing on acceptable terms, any or all of which could result in cost increases or delays.

As an energy company we face significant environmental risks.

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

The Russian reserves system differs significantly from SPE-PRMS Standards and SEC Standards.

The information relating to natural gas, gas condensate and crude oil reserves contained in this Base Prospectus has been prepared on the basis of the Russian reserves system and SPE-PRMS

Standards. The Russian reserves system differs significantly from SPE-PRMS Standards and SEC Standards, in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves.

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

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

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

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

In March 2005, we entered into a strategic partnership agreement with OAO LUKOIL (“LUKOIL”) that, among other things, provides for cooperation with respect to potential oil and gas projects in a number of countries, including Iran. We have not yet undertaken any projects under this agreement in countries subject to international or U.S. sanctions.

If we violate existing international or U.S. sanctions, penalties could include a prohibition or limitation on our ability to obtain goods and services on the international market or to access the U.S. or international capital markets. We believe that we are not currently involved in any transactions in Iran or other countries that could result in sanctions against us or for which we have not received a waiver of such sanctions. However, no assurance can be given that new sanctions may not be imposed in the future.

Risks Relating to the Russian Federation

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

Political and governmental instability could adversely affect the value of investments in Russia, including the Notes.

Since 1991, Russia has moved from a one-party state with a centrally-planned economy to a federal republic with democratic institutions and a market-oriented economy, but the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has in some respects been uneven, and the composition of the Russian government, including the prime minister and the other heads of federal ministries, has at times been unstable. For example, six different prime ministers headed governments between March 1998 and May 2000. During his term as president, President Putin has generally maintained governmental stability.

In February 2004, just prior to his election for a second term as president, President Putin appointed Mikhail Fradkov as Prime Minister and issued a presidential decree that significantly reduced the number of federal ministries, redistributed certain functions amongst various agencies of the Government and announced plans for a major overhaul of the federal administrative system. Many of these changes have since been implemented. For example, on May 12, 2008, by the Order of the President of the Russian Federation No. 724, the Ministry of Industry and Energy was split into the Ministry of Energy and the Ministry of Industry and Trade. The Ministry of Energy is responsible for the implementation of Government fuel and energy industry policy, legal regulation of the energy sector and management of state property in the energy sector. President Putin has also

introduced reforms by which executives of sub-federal political units are no longer elected by the population, but instead are nominated by the President of Russia and confirmed by the legislature of the sub-federal political unit. Pursuant to legislation that was adopted in 2005, single-member-district elections for the State Duma have been eliminated, and all votes are instead cast on a party-list basis. In September 2007, Mikhail Fradkov resigned as Prime Minister and was replaced by Mr. Zubkov, the current Chairman of our Board of Directors. Mr. Medvedev, the former Chairman of our Board of Directors, succeeded Mr. Putin and became the President of Russia on May 7, 2008. Mr. Putin has been appointed as Prime Minister and Mr. Zubkov has been appointed as First Deputy Prime Minister.

Future changes in the Government, State Duma or the presidency, major policy shifts or eventual lack of consensus between the president, the Government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on the value of investments in Russia generally and the Notes in particular and our prospects could be harmed if there is further governmental instability or if the course of reform policies does not continue.

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

Russia is currently a federation of various sub-federal political units. Some of these political units exercise considerable autonomy over their internal affairs pursuant to agreements with the federal authorities. In practice, the division of authority between federal and regional authorities remains uncertain and contested. This uncertainty could hinder our long-term planning efforts and may create uncertainties in our operating environment, any of which may prevent us from effectively and efficiently carrying out our business strategy.

For example, to achieve consistency in the regulation of natural gas supplies throughout Russia, the federal authorities have assumed responsibility for the development and implementation of state policy with respect to the supply of natural gas and the industrial and environmental safety of such supplies in Russia. However, regional and local authorities have a significant degree of autonomy in exercising their rights over the use of land and natural resources (including natural gas). Accordingly, the relationship between the relevant federal, regional and local authorities as well as between us and such authorities can have a significant impact on the conditions under which we can operate in any particular region. See also “—Risks Relating to the Russian Legal System and Russian Legislation— The Russian legal system and Russian legislation are at a developmental stage and this may create an uncertain environment for investment and for business activity.”

In addition, ethnic, religious, historical and other factors have, on occasion, given rise to tensions and, in certain cases, military conflict, such as the conflict in Chechnya, which has brought normal economic activity within Chechnya to a halt and disrupted the economies of neighboring regions. Various armed groups in Chechnya have regularly engaged in guerrilla attacks in that area. Violence and attacks relating to this conflict have also spread to other parts of Russia, including terrorist attacks in Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its continued spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce and exports from Russia, and could materially adversely affect our business and the value of investments in Russia, such as the Notes.

Economic Risks

Economic instability in Russia could adversely affect our business.

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

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high state debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;

- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- the growth of “black” and “gray” market economies;
- high levels of capital flight;
- high levels of corruption and the penetration of organized crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. In particular, on August 17, 1998, in the face of a rapidly deteriorating economic situation, the Government defaulted on its ruble-denominated securities, the CBR stopped its support of the ruble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the ruble and a sharp increase in the rate of inflation; a dramatic decline in the prices of Russian debt and equity securities; and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector after the events of August 17, 1998, which further impaired the ability of the banking sector to act as a reliable and consistent source of liquidity to Russian companies, and resulted in the loss of bank deposits in some cases. In 2004, several Russian banks experienced a sharp reduction in liquidity, and the licenses of certain of them were withdrawn.

There can be no assurance that the positive trends in the Russian economy, such as the increase in the gross domestic product, a relatively stable ruble, and a reduced rate of inflation, will continue or will not be abruptly reversed. As Russia produces and exports large quantities of crude oil and natural gas, the Russian economy is particularly vulnerable to fluctuations in the prices of crude oil and natural gas on the world market, which have reached record high levels in 2008. A significant or sustained decline in the price of crude oil or natural gas could significantly slow or disrupt the Russian economy. The occurrence of any of these events could adversely affect Russia’s economy and our business in the future.

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

For the years ended December 31, 2007, 2006 and 2005, 68%, 70% and 69% of our gross sales (including excise tax and customs duties, net of VAT), respectively, were denominated in U.S. dollars or euro, while most of our costs were denominated in rubles. The relative movement of inflation and exchange rates therefore significantly affects our results of operations. In particular, our operating margins are generally adversely affected by appreciation of the ruble against the U.S. dollar or euro, because this will generally cause our costs to increase relative to our sales revenues. The pressure on operating margins arising from ruble appreciation in real terms is intensified by the relatively high inflation rate in Russia, which can further increase our costs, though this can be offset by domestic price rises when permitted by the FTS. Conversely, our operating margins are generally positively affected by a real depreciation of the ruble against the U.S. dollar or euro, because this will generally cause our costs to decrease in real terms relative to our sales revenues. Continued appreciation of the ruble against the U.S. dollar and euro could adversely affect our financial condition and results of operations. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Certain Factors Affecting our Results of Operations—Impact of inflation and changes in exchange rates on export sales and operating margins.”

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

We are required to repatriate our export sales revenues, which could adversely affect our business. In addition, if we are required to convert any portion of our export sales into rubles in the future, it may also adversely affect our business.

We are subject to the requirement of mandatory repatriation of our export sales revenues. This may adversely affect our business, results of operations and our ability to repay any Loan and thus the Issuer’s ability to repay the corresponding portion of the Notes.

Currently, the CBR does not require any portion of our proceeds from export sales to be converted into rubles. In the past, however, we have been required to convert into rubles a percentage of our proceeds from export sales, and at times this percentage has been as high as 75%. There can be no assurance that the CBR will not require us to convert into rubles a percentage of our export sales in the future.

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

Russia's physical infrastructure largely dates back to the Soviet period and in certain respects has not been adequately funded and maintained since then. In some areas the rail and road networks, power generation and transmission, communication systems and building stock are particularly affected. Road conditions throughout areas of Russia are poor, with many roads not meeting minimum requirements for usability and safety. On May 25, 2005, a failure in the power transmission network interrupted electricity supplies in Moscow and several other regions of Russia, causing significant disruptions to business activity. Breakdowns and failures of any part of Russia's physical infrastructure may disrupt our normal business activity.

In order to enhance the prospects of infrastructure improvement, the Government is actively pursuing plans to reorganize the nation's rail, electricity and telephone systems. These reorganizations may result in increased charges and tariffs and may not result in the anticipated capital investment that is needed to repair, maintain and improve these systems.

Significant increases in charges and tariffs, or further deterioration of Russia's physical infrastructure, may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and interrupt business operations, any or all of which could have a material adverse effect on our business and the value of the Notes.

Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt our business, as well as cause the price of the Notes to suffer.

Generally, investing in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with investing in, emerging markets. Investors should also note that emerging markets such as Russia are subject to rapid change and that the information set out in this Base Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity markets of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in any emerging market country could adversely affect our business, as well as result in a decrease in the price of the Notes.

Social Risks

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

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

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

The failure of the state and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living

have led in the past, and could lead in the future, to labor and social unrest. For example, in early 2005, pensioners in cities across Russia protested against the replacement of certain in-kind benefits with cash allowances. These protests periodically blocked highways and streets in major Russian cities. Such labor and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralized authority, increased nationalism, including restrictions on foreign involvement in the economy of Russia, and increased violence. Any of these could restrict our operations and lead to a loss of revenue, materially adversely affecting us.

Risks Relating to the Russian Legal System and Russian Legislation

The Russian legal system and Russian legislation are at a developmental stage and this may create an uncertain environment for investment and for business activity.

Russia is still developing the legal framework required by a market economy. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the Constitution of the Russian Federation, by the Civil Code of the Russian Federation (the “Civil Code”), by other federal laws and by decrees, orders and regulations issued by the President, the Government and federal ministries, which are, in turn, complemented by regional and local rules and regulations. These legal norms, at times, overlap or contradict one another. Several fundamental Russian laws have only become effective within the past five to ten years. The recent nature of much Russian legislation and the rapid evolution of the Russian legal system impact the enforceability of laws and can result in ambiguities, inconsistencies in legal interpretations and other anomalies. In addition, Russian legislation sometimes leaves substantial gaps in the regulatory infrastructure. Among the possible risks of the current Russian legal system are:

- inconsistencies among (1) federal laws, (2) decrees, orders and regulations issued by the president, the Government, federal ministries and regulatory authorities and (3) regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- limited court personnel with the ability to interpret new principles of Russian legislation, particularly business and corporate law;
- gaps in the regulatory structure due to delay in legislation or absence of implementing legislation;
- a high degree of discretion on the part of governmental authorities; and
- the inadequacy of bankruptcy procedures and certain violations in bankruptcy proceedings.

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

The difficulty of enforcing court decisions and the discretion of governmental authorities to file and join claims and enforce court decisions could prevent us or investors from obtaining effective redress in court proceedings.

The independence of the judicial system and its immunity from economic and political influences in Russia is also developing. The court system is understaffed and underfunded. Russia is a civil law jurisdiction and, as such, judicial precedents generally have no binding effect on subsequent decisions. Additionally, court claims are often used in furtherance of personal aims different from the formal substance of the claims. We may be subject to such claims, and courts may render decisions with respect to those claims that are adverse to us and our investors.

There are also legal uncertainties relating to property rights. During Russia’s transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalization. However, it is possible that these protections may not be enforced in the event of an attempted nationalization, or in the event our business is reorganized. Our failure to receive what we believe to be adequate compensation in the event of the nationalization of any of our entities, their assets or portions thereof, or their break-up into separate companies, could have a material adverse effect on our operations and revenues, and on the value of the Notes.

Unlawful, selective or arbitrary decisions of state authorities may have an adverse effect on our business.

State authorities have a high degree of discretion in Russia and at times exercise their discretion arbitrarily, without due process or prior notice, and sometimes in a manner that is contrary to law.

Unlawful or unilateral state actions could include the withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities could also use common defects in matters surrounding share issuances and registration as a basis for court claims and other demands to invalidate such issuances and registrations and/or to void transactions, often to further interests different from the formal substance of the claims. Such state action, if directed at us, could have a material adverse effect on our business, and on the value of the Notes to be issued under the Programme.

In addition, since 2003, the Ministry for Taxes and Levies (now succeeded by the Federal Tax Service) has begun to challenge certain Russian companies' use of tax-optimization schemes. The press has reported significant claims for back taxes and related penalties against crude oil companies, telecommunications companies and other major companies. Although we believe that we are currently in material compliance with all of our tax obligations, there can be no assurance that the Russian Federal Tax Service will not become more aggressive in respect of future tax audits, which may have an adverse effect on our results of operations.

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

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

We are subject to Russian law, which requires us to make certain periodic public disclosures. For instance, we are required to publish our annual unconsolidated financial statements in accordance with Russian Accounting Regulations, together with an independent auditor's report. In addition, since 1998, the Government has required us (along with a number of other Russian companies that are natural monopolies) to produce financial statements prepared in accordance with IFRS in addition to producing financial statements prepared in accordance with Russian accounting standards. We have published financial statements in accordance with IFRS since 1996. The Gazprom Group consists of a large number of companies with a wide geographical range of operations. A majority of the companies in the Gazprom Group are governed by Russian law, including Russian accounting regulations. These factors, as well as the preparation of financial statements for each of our companies and our annual and interim consolidated accounting and financial reports, determine the time of the preparation of the reports. Therefore, we believe that it may take us more time than many western European companies to prepare and publish our financial reports.

In accordance with Russian legislation, we are obliged to file quarterly reports on the activities of Gazprom to the Federal Financial Markets Service within 45 days of the end of the relevant quarter. Such reports include certain information about us, our management, subsidiaries, affiliates, selected financial and business information (such as litigation and quarterly accounts prepared in accordance with Russian accounting standards) but do not contain all of the information contained in our IFRS consolidated financial statements. We have regularly published such reports since the fourth quarter of 1998 and generally comply with the reporting requirements.

In addition, Russian law requires certain disclosures be made by open joint stock companies, such as the disclosure of annual reports, annual accounts (audited by an independent auditor 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. We developed and adopted a corporate governance code for Gazprom at our General Meeting of Shareholders in June 2002. In addition, on September 27, 2002, Gazprom's Board of Directors enacted procedures to improve the coordination of transactions and to increase the level of control by Gazprom's Board of Directors over transactions by Gazprom and its subsidiaries. See "Gazprom—Corporate Governance." Nonetheless, despite these requirements and initiatives, there is less publicly-available information about us than there is available for comparable listed companies in, for example, the United States or the United Kingdom.

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

The Civil Code, the Russian Federal Law “On Joint Stock Companies” No. 208-FZ dated December 26, 1995 (the “Joint Stock Companies Law”) and the Russian Federal Law “On Limited Liability Companies” No. 14-FZ dated February 8, 1998 generally provide that shareholders in a Russian joint stock company or members in a Russian limited liability company are not liable for the obligations of the joint stock company or limited liability company and bear only the risk of loss of their investment. This may not be the case, however, when one company (the “effective parent”) is capable of making decisions for another company (the “effective subsidiary”). Under certain circumstances, the effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out such decisions. In addition, the effective parent is secondarily liable for the effective subsidiary’s debts if the effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of an effective parent. Accordingly, in our position as the effective parent of the subsidiaries in which we own more than 50% of the charter capital, we could be liable for their debts. This liability could have an adverse effect on us.

Some transactions conducted by us involving interested parties as defined under Russian law require the approval of disinterested directors or disinterested shareholders and our failure to obtain such approvals could have an adverse effect on us.

Russian law requires a company that enters into transactions that are referred to as “interested party transactions” to comply with special approval procedures. See “Certain Transactions.”

Interested party transactions conducted by companies must be approved by a majority of the disinterested independent members of the board of directors of the company. Where all the directors are interested, or are not independent, or if the subject matter of the transaction exceeds 2% of the balance sheet assets of the company determined under Russian accounting principles (with certain exceptions for share placements), a majority vote of the disinterested shareholders of the company is required. If this approval procedure is not followed, a transaction could be declared invalid upon a claim by the company or any of its shareholders. However, a shareholder may have to prove actual damages to the company or the shareholder in order to bring such a claim. The interested party could be held liable for damages.

The Joint Stock Companies Law has contained a requirement with respect to the approval of interested party transactions since it became effective in 1996. Under Russian law, the lack of advance approval makes such a transaction voidable, but not void. In certain circumstances, such as when an interested party transaction was entered into among companies within our Group, the transaction was not always submitted to Gazprom’s Board of Directors for advance approval. In 2000, 2001 and 2002, Gazprom’s Board of Directors approved certain interested party transactions after, rather than before, they were consummated, and, since 1996, Gazprom’s Board of Directors has never recognized any such transaction to be contrary to our interests or denied approval thereof *post factum*.

Historically, courts refused to invalidate transactions that were approved after the transactions were consummated. However, following revisions to the Joint Stock Companies Law that came into effect on January 1, 2002, which clarified that interested party transactions must be approved before they are entered into, courts have changed their position with respect to such transactions, and the Supreme Arbitration (Commercial) Court of the Russian Federation (the “Supreme Arbitration Court”) ruled in November 2003 that an interested party transaction must be approved before it is entered into. Accordingly, we have thus ceased the practice of seeking *post factum* approvals of interested party transactions.

Transactions between members of a consolidated corporate group may also, in certain circumstances, be considered to be interested party transactions, even when the companies involved are wholly-owned by the parent company. Our Russian subsidiaries are subject to the same (or similar) legal requirements regarding the approval of interested party transactions.

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

We are subject to a broad range of taxes and other compulsory payments to the budget imposed at federal, regional and local levels, including but not limited to, export duties, corporate income tax, VAT, natural resources production tax, property tax and social taxes. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Certain Factors Affecting our Results of Operations- Our historically high tax burden.”

Laws related to these taxes, such as the Russian Tax Code, have been in force for a short period relative to tax laws in more developed market economies, and the implementation of these tax laws is often unclear or inconsistent. Historically, the system of tax collection has been relatively ineffective, resulting in the continual change in interpretation of the existing laws in an attempt to increase revenues. Furthermore, the tax environment in Russia has been complicated by the fact that various authorities have often interpreted tax legislation inconsistently. Although the quality of the Russian tax legislation has generally improved with the introduction of the first and second parts of the Russian Tax Code, the possibility exists that Russia may impose arbitrary or onerous taxes and penalties in the future, which could adversely affect our business. A large number of changes have been introduced to various chapters of the Russian Tax Code since their adoption.

Since Russian federal, regional and local tax laws and regulations are subject to frequent change and some of the sections of the Russian Tax Code relating to the aforementioned taxes are comparatively new, interpretation of these regulations is often unclear or non-existent. Taxpayers and the Russian tax authorities often interpret tax laws differently. In some instances Russian tax authorities have applied new interpretations of tax laws retroactively. Differing interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Furthermore, in the absence of binding precedent, court rulings on tax or other related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory. Taxpayers often have to resort to court proceedings to defend their position against the tax authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments.

The Russian tax system still relies heavily on the judgments of local tax officials and fails to address many of the existing problems, and local tax officials have recently made several material tax claims against major Russian companies.

Tax declarations together with related documentation are subject to review and investigation by a number of authorities, which are enabled by Russian law to impose severe fines and interest. Generally, tax declarations remain open and subject to inspection by the tax authorities for a period of three years immediately preceding the year in which the tax inspection is carried out. The fact that a year has been reviewed by the tax authorities does not close that year, or any tax declarations applicable to that year, from further review during the three-year limitation period. In addition, on July 14, 2005, the Constitutional Court of the Russian Federation issued a decision that allows the statute of limitations for taxes and related penalties and fines to be extended beyond the three-year term set forth in the tax laws if a court determines that a taxpayer has obstructed or hindered a tax inspection. Moreover recent amendments introduced to the first part of the Russian Tax Code which came into effect starting January 1, 2007, provide for the extension of the three-year statute of limitations for tax liabilities if the actions of the taxpayer create insurmountable obstacles for the tax audit. Because the terms “obstructed”, “hindered” and “insurmountable obstacles” are not specifically defined in Russian law, the tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced in the course of their tax audit with obstruction by the taxpayer and use that as a basis to seek tax adjustments and penalties beyond the three-year term. Therefore, the statute of limitations is not entirely effective. In some instances, changes in tax regulations have been given retroactive effect. In its decision of July 26, 2001, the Constitutional Court also introduced the concept of “a taxpayer acting in bad faith” without clearly stipulating the criteria for it. Similarly, this concept is not defined in Russian tax law. Nonetheless, this concept has been used by the tax authorities to deny, for instance, the taxpayer’s right to rely on the letter of the tax law. The tax authorities often exercise significant discretion in interpreting this concept in a manner that is unfavourable to taxpayers. These facts create tax risks in Russia that may be substantially more significant than typically found in countries with more developed tax systems.

Transfer pricing legislation in Russia allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all “controlled” transactions (except for those conducted at state regulated prices and tariffs), sales and purchases, provided that the transaction price differs upwards or downwards from the market price by more than 20%. “Controlled” transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (i.e. if the price of such transactions differs from prices applied under similar transactions by more than 20% within a short period of time). Special transfer pricing rules apply to securities transactions and derivatives. The transfer pricing rules are vaguely drafted, generally leaving wide scope for interpretation by the

tax authorities and courts. Moreover, in the event that a transfer pricing adjustment is assessed by the tax authorities, the transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction. There is a plan to introduce substantial amendments to the transfer pricing legislation. Such amendments, if adopted, are expected to result in stricter transfer pricing rules. At this point it cannot be predicted when this law will be enacted, if at all, and what the provisions or effect on taxpayers, including the Group, may be. If the tax authorities were to impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse effect on our business, financial condition, results of operations or prospects.

On October 12, 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued ruling No. 53 which introduced a new concept of “unjustified tax benefit” which is defined mainly by reference to specific examples of such tax benefits (e.g., absence of business purpose) which may lead to disallowance thereof for tax purposes. There is little practice on interpretation of this new concept by the tax authorities or the courts, but it is apparent that the tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the intention of this ruling was to combat abuse of tax law, based on the available judicial interpretations relating to Ruling No. 53, the tax authorities have started applying the “unjustified tax benefit” concept in a broader sense than may have been intended by the Supreme Arbitration Court. To date, in the majority of cases where this concept was applied, the courts have ruled so far in favour of taxpayers, but it is too early to determine whether the courts will follow these precedents in the future. Furthermore, Ruling No. 64 of the Plenum of the Supreme Court of the Russian Federation “Concerning the Practical Application by Courts of Criminal Legislation Concerning Liability for Tax Crimes” dated December 28, 2006 is indicative of the trend to broaden application of criminal liability for tax violations.

It should also be noted that Russian law does not provide for a possibility of group relief or fiscal unity. Consequently, tax losses of any Russian legal entity of the Group may not be surrendered to reduce the tax liability of any other Russian legal entity of the Group.

Our Group operates in various jurisdictions and includes companies incorporated outside of Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies in Russia or operations of Russian companies abroad. It is possible that with the evolution of these rules or changes in the approach of the Russian tax authorities, we might be subject to additional taxation in Russia in respect of our operations outside of Russia.

There can be no assurance that the Russian Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system. These factors, plus potential for state budget deficits, raise the risk of an imposition of additional taxes on us. The introduction of new taxes or amendments to current taxation rules may have a substantial impact on the overall amount of our tax liabilities. There is no assurance that we would not be required to make substantially larger tax payments in the future, which may affect the financial results of our Group. In addition to creating a substantial tax burden, these risks and uncertainties complicate the Group’s tax planning and related business decisions, potentially exposing it and its Russian subsidiaries to significant fines and penalties and enforcement measures, and could adversely affect the Group’s business, financial condition and results of operations.

Risks Relating to the Notes and the Trading Market

The Issuer's rights to receive payments under the Loans (and therefore its ability to make payments under the corresponding series of Notes as they fall due) are effectively subordinated to any liabilities of our subsidiaries and we and many of our subsidiaries, as Russian companies, are subject to Russian bankruptcy laws and procedures. The ability of Noteholders to recover in full could be adversely affected if we, or any of these subsidiaries, declares bankruptcy, liquidates or reorganizes.

Certain of our operations are conducted through our subsidiaries and to a certain extent we depend on the earnings and cash flows of these subsidiaries to meet our debt obligations, including our obligations under each Loan. In addition, our subsidiaries' assets constitute a material part of our operating assets. Finally, our subsidiaries have material liabilities, including accounts payable and accrued charges, taxes payable, restructured tax liabilities, other long-term liabilities and provisions for liabilities and charges. Because our subsidiaries do not guarantee the payment obligations of our parent company, Gazprom, under each Loan or the Issuer's payment obligations under the Notes, neither the Issuer nor holders of Notes will have any direct claim on our subsidiaries' cash flows or assets. In the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries, their creditors will generally be entitled to payment of their claims from the cash flows and assets of those subsidiaries before any cash flows or assets are made available for distribution to us as a shareholder. This may adversely affect our ability to service our payment obligations under any Loan.

In addition, a Noteholder's claims in the Specified Currency of the relevant Notes may be converted into Russian Roubles in any Russian bankruptcy proceedings and therefore, in addition to the general risks of less than full recovery associated with any bankruptcy (or similar) proceedings, Noteholders may be adversely affected by movements in the currency exchange rates between the Russian Rouble and the Specified Currency of the Notes.

If we wish to incur secured indebtedness, we may be required by the International Bank for Reconstruction and Development to equally and ratably pledge our assets, which may affect our ability to obtain secured financing.

The Russian Federation is subject to a negative pledge clause in its borrowings from the International Bank for Reconstruction and Development (the "IBRD") in accordance with Article 9.03 of the IBRD's General Terms for loan and guarantee agreements. The negative pledge clause prevents any entity owned or controlled by, or operating for the account or benefit of, the Russian Federation from pledging any of its assets to secure further borrowings unless the IBRD is equally and ratably secured. Since July 1, 2005, the Russian Federation, either directly or through its wholly-owned or controlled entities, has had control over a majority of our shares. We are therefore now subject to the provisions of this negative pledge clause. In this context, if we wish to incur our own secured indebtedness, there is a risk that we may be required by the IBRD to equally and ratably pledge our assets with regard to the Russian Federation's indebtedness.

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

There may not be an existing market for the Notes at the time they are issued. Each Series of Notes is expected to be listed and admitted to trading on the Market of the Irish Stock Exchange (or another stock exchange). However, there can be no assurance that a liquid market will develop for the Notes, that holders of the Notes will be able to sell their Notes, or that such holders will be able to sell their Notes for a price that reflects their value.

Payments we make under any Loan may be subject to Russian withholding tax.

In general, payments of interest made on borrowed funds by a Russian entity to a non-resident legal entity are subject to Russian withholding tax at the rate of 20%, subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on the professional advice we have received, we believe that payments of interest on each Loan should not be subject to Russian withholding tax under the terms of the Convention between Grand Duchy of Luxembourg and the Russian Federation for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital signed on June 28, 1993 (the "Russia-Luxembourg double tax treaty"). However, there is no assurance that such relief will be available in practice.

In addition, if interest and other amounts due under any Loan become payable to the Trustee pursuant to the Trust Deed, any benefits of the Russia-Luxembourg double tax treaty will cease and payments made to the Trustee under such Loans should be subject to Russian withholding tax at the rate of 20% or such other rate as may be in force at the time of payment.

If payments under any Loan are subject to any withholding of Russian tax (as a result of which the Issuer would reduce payments under the corresponding Series of the Notes in the amount of such withholding tax), we are obliged to increase payments as may be necessary so that the net amount of payments received by the Issuer and Noteholders will not be less than the amount they would have received in absence of such withholding tax. It should be noted, however, that tax gross-up provisions may not be enforceable under Russian law. If we are obliged to increase payments, we may, subject to certain conditions, prepay such Loan in full. In such case, all outstanding Notes of the corresponding Series would be redeemable at par with accrued and unpaid interest and additional amounts, if any, to the date of repayment. See “Terms and Conditions of the Notes” and “Taxation—Russian Federation.”

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

If a non-resident Noteholder that is a legal entity or organisation sells the Notes and receives proceeds from a source within Russia, there is a risk that the part of the payment, if any, representing accrued interest may be subject to 20% Russian withholding tax, although such tax may be reduced or eliminated under provisions of an applicable double tax treaty subject to compliance with the treaty clearance formalities.

Where proceeds from disposition of the Notes are received from a source within Russia by a non-resident Noteholder, who is an individual, a withholding tax would be charged at the rate of 30% on the gross amount of proceeds from disposition of the Notes less any available duly documented cost deductions (including the acquisition cost of the Notes). Although such tax may be reduced or eliminated under provisions of an applicable double tax treaty subject to compliance with the treaty clearance formalities, in practice individuals would not be able to obtain advance treaty relief in respect of receipt of proceeds received from a source within Russia, whilst obtaining a refund of taxes withheld can be extremely difficult, if not impossible. Further, even though the Russian Tax Code requires only a Russian professional asset manager or broker, or another person (including a foreign company with a permanent establishment or any registered presence in Russia or an individual entrepreneur located in Russia) acting in a similar capacity to withhold the tax from payment to an individual associated with disposition of securities, there is no guarantee that other Russian companies or foreign companies with a registered presence in Russia or an individual entrepreneur located in Russia would not seek to withhold the tax. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See “Taxation—Russian Federation.”

ERISA Considerations.

A Series of Notes issued under the Programme may be regarded for purposes of the United States Employee Retirement Income Security Act of 1974, as amended (“ERISA”), as equity interests in a separate entity whose sole asset is the Loan corresponding with that Series. Accordingly, the Notes should not be acquired by any “benefit plan investor” within the meaning of Section 3(42) of ERISA (“Benefit Plan Investor”). Each purchaser and/or holder of Notes and each transferee therefore will be deemed to have made representations that it is not a Benefit Plan Investor. Potential purchasers should read the sections entitled “Certain U.S. Employee Benefit Plan Considerations” and “Transfer Restrictions.”

USE OF PROCEEDS

The net proceeds from each offering of a Series of Notes will be used by the Issuer for the sole purpose of financing the corresponding Loan to us. The proceeds of such Loan will be used by us for general corporate purposes.

CAPITALIZATION

The following table shows our consolidated cash and cash equivalents and certain restricted cash, short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable and total capitalization, consisting of long-term borrowings, long-term promissory notes payable and total equity, as of December 31, 2007, extracted from our audited consolidated financial statements as of and for the year ended December 31, 2007. For further information regarding our financial condition, see “Selected Consolidated Financial Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements included elsewhere in this Base Prospectus.

The U.S. dollar amounts set forth below were not included in our annual audited consolidated financial statements and are provided for convenience only. They should not be construed as representations that the RR amounts have been or could be converted into U.S. dollars at that or any other rate or as being representative of U.S. dollar amounts that would have resulted if we reported in U.S. dollars. The U.S. dollar amounts have been translated from the RR amounts at the rate of RR24.5462 = U.S.\$1.00, which was the CBR rate on December 31, 2007.

	As of December 31, 2007	
	RR	U.S.\$
	(amounts in millions)	
Cash and cash equivalents and certain restricted cash ⁽¹⁾	282,083	11,492
Short-term borrowings and current portion of long-term borrowings	504,070	20,536
Short-term promissory notes payable	21,455	874
Total	525,525	21,410
Long-term borrowings	981,408	39,982
Long-term promissory notes payable	3,555	145
Total equity, of which:	4,313,097	175,713
Share capital ⁽²⁾	325,194	13,248
Treasury shares	(20,801)	(847)
Retained earnings and other reserves	3,646,396	148,552
Minority interest	362,308	14,760
Total capitalization ⁽³⁾	5,298,060	215,840

Notes:

(1) Includes cash restricted as to withdrawal under the terms of certain borrowings and other contractual obligations but excludes cash restricted as to withdrawal under banking regulations.

(2) Authorized, issued and paid-in share capital consists of 23.7 billion ordinary shares, each with a historical par value of RR5.

(3) Totals may not sum due to rounding.

Since December 31, 2007, (1) the Issuer issued U.S.\$400 million Loan Participation Notes due in 2013 at an interest rate of 7.343% and U.S.\$1,100 million Loan Participation Notes due in 2018 at an interest rate of 8.146%, in each case to fund loans to Gazprom under the Programme in April 2008, (2) we borrowed U.S.\$900 million in January 2008 from ABN AMRO to finance the acquisition of voting shares of OGK-6, (3) we borrowed U.S.\$1,635 million in January 2008 from Credit Suisse International to refinance the U.S.\$1,635 million loan received in September 2007 from Credit Suisse International, (4) we borrowed U.S.\$450 million in March 2008 from a syndicate of banks, (5) Gazprom Neft borrowed U.S.\$1,000 million in July 2008 from a syndicate of banks and (6) Gazprombank issued Eurobonds in July 2008 in an aggregate principal amount of CHF 300 million and having a two-year maturity.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information set forth below shows our consolidated financial information as of December 31, 2007, 2006 and 2005 and for the years then ended. The annual consolidated financial information as of December 31, 2007, 2006 and 2005 and for the years then ended has been extracted from, and should be read in conjunction with, the annual audited consolidated financial statements included elsewhere in this Base Prospectus. The selected consolidated financial information set forth below should also be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” below.

Our annual consolidated financial statements have been prepared in accordance with IFRS, which includes IAS and Interpretations issued by the IASB. IFRS differs in certain respects from U.S. GAAP.

The U.S. dollar amounts set forth below were not included in our annual audited consolidated financial statements and are provided for convenience only. Totals may not sum due to rounding. They should not be construed as representations that the RR amounts have been or could be converted into U.S. dollars at that or any other rate or as being representative of the U.S. dollar amounts that would have resulted if we reported in U.S. dollars. The U.S. dollar amounts have been translated from the RR amounts at the rate of RR24.5462 = U.S.\$1.00, which was the CBR rate on December 31, 2007.

	Year ended December 31,					
	2007		2006		2005	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
	(amounts in millions)					
Statement of Income						
Sales	97,386	2,390,467	87,676	2,152,111	56,365	1,383,545
Operating expenses ⁽¹⁾	(68,796)	(1,688,689)	(55,566)	(1,363,923)	(37,870)	(929,561)
Operating profit	28,590	701,778	32,110	788,188	18,495	453,984
Net interest expense ⁽²⁾	(64)	(1,581)	(298)	(7,311)	(448)	(11,000)
Net monetary effects and other financing items ⁽³⁾	1,157	28,388	1,630	40,014	(205)	(5,036)
Other ⁽⁴⁾	7,969	195,619	1,433	35,174	496	12,167
Profit tax expense of which.....	(9,338)	(229,219)	(8,947)	(219,604)	(5,467)	(134,184)
Current profit tax expense	(8,892)	(218,266)	(8,712)	(213,844)	(4,808)	(118,028)
Deferred profit tax expense	(446)	(10,953)	(235)	(5,760)	(658)	(16,156)
Profit for the period.....	28,313	694,985	25,929	636,461	12,871	315,931
Profit attributable to minority interest	1,505	36,947	942	23,116	196	4,806
Profit attributable to equity holders of Gazprom	26,808	658,038	24,987	613,345	12,675	311,125

	As of December 31,					
	2007		2006		2005	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
	(amounts in millions)					
Balance Sheet						
<i>Assets</i>						
Total current assets, of which.....	63,815	1,566,417	60,388	1,482,305	40,799	1,001,453
Cash and cash equivalents and certain restricted cash ⁽⁴⁾	11,492	282,083	11,085	272,101	6,430	157,820
Total long-term assets, of which.....	212,910	5,226,139	155,935	3,827,620	135,974	3,337,641
Property, plant and equipment ...	142,200	3,490,477	123,643	3,034,968	113,704	2,791,011
Total assets.....	276,725	6,792,556	216,324	5,309,925	176,773	4,339,094
<i>Liabilities and Equity</i>						
Total current liabilities, of which.....	44,184	1,084,554	35,039	860,070	21,448	526,469
Taxes payable.....	2,997	73,563	2,786	68,380	4,270	104,817
Short-term borrowings and current portion of long-term borrowings	20,536	504,070	11,843	290,705	7,372	180,959
Short-term promissory notes payable.....	874	21,455	4,190	102,859	844	20,710
Total long-term liabilities, of which.....	56,828	1,394,905	44,815	1,100,035	44,565	1,093,891
Long-term borrowings	39,982	981,408	27,228	668,343	30,223	741,849
Long-term promissory notes payable.....	145	3,555	700	17,186	433	10,639
Total liabilities	101,012	2,479,459	79,854	1,960,105	66,013	1,620,360
Total equity, of which.....	175,713	4,313,097	136,470	3,349,820	110,760	2,718,734
Minority interest	14,760	362,308	6,574	161,362	5,798	142,317
Shareholders' equity.....	160,953	3,950,789	129,896	3,188,458	104,962	2,576,417

	As of and for the year ended December 31,					
	2007		2006		2005	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
	(amounts in millions except for ratios)					
Certain Items and Ratios						
Adjusted EBITDA ⁽⁵⁾	36,328	891,715	39,278	964,128	23,651	580,545
Gross interest expense ⁽⁶⁾	(3,136)	(76,975)	(1,783)	(43,771)	(1,475)	(36,202)
Net interest expense ⁽²⁾	(64)	(1,581)	(298)	(7,311)	(448)	(11,000)
Total debt ⁽⁷⁾	61,544	1,510,666	43,995	1,079,915	38,918	955,285
Net debt ⁽⁸⁾	50,052	1,228,583	32,910	807,814	32,488	797,465
Adjusted EBITDA/Gross interest expense.....	(11.58)		(22.03)		(16.04)	
Adjusted EBITDA/Net interest expense.....	(564.02)		(131.87)		(52.78)	
Net debt/Adjusted EBITDA	1.38		0.84		1.37	

Notes:

- (1) Includes impairment provisions for accounts receivable and prepayments, assets under construction, investments and other long-term assets and inventory obsolescence.
- (2) Gross interest expense less interest income.
- (3) Share of net income of associated undertakings and gains on available-for-sale investments. The year ended December 31, 2007 includes the impact of the deconsolidation of Gazfund.
- (4) Cash and cash equivalents and certain restricted cash include balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations but exclude cash restricted as to withdrawal under banking regulations.
- (5) Reconciliation from Adjusted EBITDA to operating profit:

Year ended December 31,

	2007		2006		2005	
	U.S.\$	RR	U.S.\$	RR	U.S.\$	RR
	(amounts in millions)					
Adjusted EBITDA.....	36,328	891,715	39,278	964,128	23,651	580,545
less: depreciation.....	(7,479)	(183,577)	(6,822)	(167,446)	(5,084)	(124,783)
less: releases (charges) of provisions for impairment of assets ⁽¹⁾	(314)	(7,708)	(576)	(14,146)	(358)	(8,776)
plus: (releases) charges of provisions of accounts receivable and prepayments	55	1,348	230	5,652	285	6,998
Operating profit	28,590	701,778	32,110	788,188	18,495	453,984

There are no non-GAAP measure adjustments between operating profit and profit.

Adjusted EBITDA should not be considered as an alternative to profit, operating profit, net cash provided by operating activities or any other measure of performance under IFRS and may not be comparable to similar non-GAAP measures used by other companies.

- (6) Interest expense on taxes payable, short- and long-term debt and other interest expense, excluding capitalized interest on borrowings. See note 3 above for an explanation of interest expense on taxes payable.
- (7) Short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities amounted to RR178 million (U.S.\$7 million), RR822 million (U.S.\$33 million) and RR1,128 million (U.S.\$46 million) for 2007, 2006 and 2005, respectively.
- (8) Total debt less cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations.

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

You should read the following discussion and analysis of our financial condition and results of operations as of December 31, 2007, 2006 and 2005 and for the years then ended in conjunction with our audited consolidated financial statements for the year ended December 31, 2007 and audited consolidated financial statements for the year ended December 31, 2006. The consolidated financial statements for the year ended December 31, 2006 do not include all of the disclosures required by IFRS 7, as this standard became effective on January 1, 2007. The U.S. dollar amounts, except as indicated, have been translated from the RR amounts at the rate of RR24.5462 = U.S.\$1.00, which was the rate published by the CBR on December 31, 2007.

Overview

We are one of the world's largest oil and gas companies in terms of reserves, production and market capitalization. Our revenues are primarily derived from sales of natural gas, crude oil and other hydrocarbon products to Far Abroad, Russia and other FSU countries.

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

- Production of natural gas-exploration and production of natural gas;
- Transport-transportation of natural gas;
- Distribution-domestic and export sale of natural gas;
- Production of crude oil and gas condensate-exploration of oil and gas condensate, sales of crude oil and gas condensate; and
- Refining-processing of oil, gas condensate and other hydrocarbons, and sales of refined products.

Other businesses primarily comprise banking, electricity and heat energy generation, construction and media.

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

Critical Accounting Policies

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

Gas and oil exploration and production activities

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

Assets associated with exploration and production activities (except for acquired production licenses) are depreciated on a straight-line basis calculated on the basis of cost. IFRS do not specifically require the use of the units-of-production method for the depreciation, depletion and amortization of gas production assets and there is no specific accounting standard for the depreciation of oil and gas producing assets. In making our estimates of depreciation, and considering the corresponding asset lives, we allocate proved reserves beyond the initial license period date in

circumstances where we have both the right to request and the intent to renew the license and where the cost of renewal is not significant when compared with the economic benefits expected to be received as a result of renewal. A significant increase or decrease in reserves or the terms of our licenses could result in shorter or longer estimated useful lives for depreciation of assets.

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

Impairment provision for accounts receivable

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

Impairment of available-for-sale financial assets

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

Impairment of other assets and accounting for provisions

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

Our accounting for impairment includes provisions against capital construction projects, financial assets, other long-term assets and inventories. We record impairment when our assessments indicate that it is probable that an asset will not be recovered, and an amount can be reasonably estimated. Actual results may differ from our estimates, and our estimates can be revised in the future, either negatively or positively, depending upon the outcome or changes in expectations based on the facts surrounding each exposure.

Because of our budgeting and planning cycle, certain significant decisions about capital construction projects are made after the end of our fiscal year. Accordingly, we typically have larger impairment charges or releases in the fourth quarter of our fiscal year as compared to other quarters. For example, in 2007 we recorded a fourth quarter impairment provision charge of RR2,760 million related to assets under construction, compared to a RR2,178 million impairment provision charge for the first nine months of 2007. In 2006 we recorded a fourth quarter impairment provision charge of RR3,575 million related to assets under construction, compared to a RR4,388 million impairment provision charge for the first nine months of 2006. In 2005 we recorded a fourth quarter impairment provision charge of RR1,136 million related to assets under construction, compared to a RR772 million impairment provision charge for the first nine months of 2005.

Interest costs on borrowings

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

Tax contingencies

Russian tax and customs legislation is subject to varying interpretations and changes, which can occur frequently. Our interpretation of such legislation as applied to our transactions and activity may be challenged by the relevant regional and federal authorities. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may now be challenged. As a result, additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Where we believe it is probable that our interpretation of the relevant legislation and our tax and customs positions will not be sustained, an appropriate amount is accrued in our consolidated financial statements.

Site restoration and environmental costs

Site restoration costs that may be incurred by us at the end of the operating life of certain of our facilities and properties are recognized when we have a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Our property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. The cost is depreciated through our consolidated statement of income on a straight-line basis over the asset's remaining productive life. Costs in the current period are adjusted based on changes in the measurement of existing site restoration obligations that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate.

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

Fair value estimation for financial instruments

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

Fair value estimation for acquisitions

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

Accounting for plan assets and pension liabilities

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

Subsidiary undertakings

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

Our consolidated financial statements reflect the results of operations of any subsidiaries acquired from the date control is established. Subsidiaries are no longer consolidated from the date from which control ceases. All intercompany transactions, balances and unrealized surpluses and

deficits on transactions between group companies have been eliminated. Separate disclosure is made of minority interests.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

Recent Accounting Pronouncements

Effective January 1, 2005, we adopted all of the IFRS standards that became mandatory for annual periods beginning on or after January 1, 2005, and are relevant to our operations, except for IFRS 3 “Business Combinations” (“IFRS 3”), IAS 36 (revised 2004) “Impairment of Assets” (“IAS 36”) and IAS 38 (revised 2004) “Intangible Assets” (“IAS 38”), which we adopted early in 2004, and except for those which are not yet effective and were not adopted earlier as discussed below. We adopted IFRS 6 “Exploration for and Evaluation of Mineral Resources” (“IFRS 6”) before it was required, effective January 1, 2005.

The adoption of IAS 39 (revised 2004) “Financial Instruments: Recognition and Measurement” (“IAS 39”) on January 1, 2005 resulted in a change in our accounting policy relating to the classification of financial assets at fair value through profit or loss and recognition of gains (losses) arising from changes in fair value of available-for-sale financial assets. The adoption of IAS 39 and early adoption of amendments to IAS 39 “Cash Flow Hedge Accounting of Forecast Intragroup Transactions”, “The Fair Value Option” and “Financial Guarantee Contracts.” and early adoption of an amendment to IFRS 4 “Financial Guarantee Contracts” had no material effect on our consolidated financial statements.

The adoption of IAS 1 “Presentation of Financial Statements” (“IAS 1”), IAS 2 “Inventories” (“IAS 2”), IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” (“IAS 8”), IAS 10 “Events after the Balance Sheet Date” (“IAS 10”), IAS 16 “Property, Plant and Equipment” (“IAS 16”), IAS 17 “Leases” (“IAS 17”), IAS 21 “The Effects of Changes in Foreign Exchange Rates” (“IAS 21”), IAS 24 “Related Party Disclosures” (“IAS 24”), IAS 27 “Consolidated and Separate Financial Statements” (“IAS 27”), IAS 28 “Investments in Associates” (“IAS 28”), IAS 32 “Financial Instruments: Disclosure and Presentation” (“IAS 32”) and IAS 33 “Earnings per Share” (“IAS 33”) (all revised 2003), and IFRS 2 “Share-based Payments” (“IFRS 2”), IFRS 4 “Insurance Contracts” (“IFRS 4”) and IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” (“IFRS 5”) did not result in substantial changes to our accounting policies. The adoption of these standards did not have a material effect on our consolidated financial statements when adopted.

In summary:

- the adoption of IAS 1 clarifies certain presentation requirements. Most significantly, the revised standard requires that minority interests be presented within equity. We have retrospectively reflected the revised presentation standard for equity in our consolidated financial statements;
- IAS 2, IAS 8, IAS 10, IAS 16, IAS 17, IAS 27, IAS 28, IAS 31, IAS 32 and IAS 33, along with IFRS 2 and IFRS 4, had no material effect on our consolidated financial statements;
- IAS 21 had no material effect on our consolidated financial statements. The functional currency of each of our consolidated entities has been re-evaluated based on the guidance to the revised standard. The functional currency of our subsidiaries has not changed as a result of this re-evaluation;
- IAS 24 has affected the identification of related parties and some other related-party disclosures. Under IAS 24, we are no longer exempt from disclosing transactions with other state-controlled entities as transactions with parties under common Government control; and
- we account for non-current assets held for sale and discontinued operations in accordance with IFRS 5. IFRS 5 replaced IAS 35 “Discontinuing Operations.” Assets or disposal groups that are classified as held for sale are presented separately on the balance sheet and are carried at the lower of the carrying amount and fair value less costs to sell.

Additionally, the results of discontinued operations are shown separately on the face of the consolidated statement of income. The adoption of IFRS 5 did not have a material effect on our consolidated financial statements.

On January 1, 2005, we adopted IFRS 6 “Exploration for and evaluation of Mineral Resources” before it was required. This standard provides guidance on accounting for costs incurred in the exploration for and evaluation of mineral resources. Adoption of the standard did not have a material effect on our consolidated financial statements and did not result in any changes to our accounting policies.

The adoption of an amendment to IAS 21 “The Effects of Changes in Foreign Exchange Rates: Net Investment in a Foreign Operation” had no material effect on our consolidated financial statements.

In addition to the new and amended standards summarized above, we adopted the following interpretations on January 1, 2005 before they were required: IFRIC 4 “Determining whether an Arrangement contains a Lease”, IFRIC 5 “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds” and IFRIC Amendment to Standing Interpretations Committee Interpretation 12 (“SIC-12”). The adoption of these interpretations did not have a material effect on our consolidated financial statements.

Effective January 1, 2006, we adopted the amendment to IAS 19 “Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures” (“IAS 19”). The amendment to IAS 19 introduces an additional option to recognize actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers. No changes in respect of the recognition of actuarial gains and losses were made in our accounting policies as a result of such adoption.

The adoption of IFRIC 6 “Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment”, IFRIC 7 “Applying the Restatement Approach under IAS 29”, and IFRIC 10 “Interim Financial Reporting and Impairment” effective January 1, 2006 did not have a material effect on our consolidated financial statements.

Effective January 1, 2007, we adopted all IFRS, amendments and interpretations which were effective January, 1 2007 and which are relevant to our operations.

Effective January 1, 2007, we adopted IFRS 7 “Financial Instruments: Disclosures” (“IFRS 7”) and the related Amendment to IAS 1 “Presentation of Financial Statements – Capital Disclosures”. IFRS 7 introduced new disclosures relating to financial instruments and did not have any impact on the classification and valuation of our financial instruments. IFRS 7 replaced IAS 30 “Disclosures in the Financial Statements of Banks and Similar Financial Institutions”, and some of the requirements in IAS 32. The Amendment to IAS 1 introduced disclosures about the level of an entity’s capital and how it manages that capital. The new disclosures were made in our consolidated financial statements for 2007. The audited financial statements for the year ended December 31, 2006 and the comparative information for the year ended December 31, 2005, included in this Base Prospectus, do not include all the disclosures required by IFRS 7. We did not make these disclosures for 2006 and 2005 financial information because we adopted the standard from January 1, 2007.

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

Effective January 1, 2007, we early adopted IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” (“IFRIC 14”). IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how a minimum funding requirement might affect the availability of reductions in future contributions, and when a minimum funding requirement might give rise to a liability. The adoption of IFRIC 14 did have an effect on the determination of the fair value of plan assets recognized as a result of deconsolidating of Gazfund.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards where applicable, otherwise IAS 8 was followed.

The following new standards and amendments to standards are not yet effective and have not been applied to the consolidated financial statements and other financial information included in this Base Prospectus:

- IFRS 8 “Operating Segments” (“IFRS 8”), which is effective for annual periods beginning on or after January 1, 2009. The standard replaces IAS 14 “Segment reporting”. The standard requires an entity to adopt a “management approach” to the reporting of the performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operational segments. Such information may be different from what is used to prepare the income statement and balance sheet. IFRS 8 therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognised in the income statement and balance sheet. The application of IFRS 8 is not expected to materially affect our consolidated financial statements.
- Amendment to IAS 23 “Borrowing costs” (“IAS 23”), which is effective for annual periods beginning on or after January 1, 2009. The amendment to IAS 23 removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The application of this amendment is not expected to materially affect our consolidated financial statements.
- Amendment to IAS 1, which is effective for annual periods beginning on or after January 1, 2009. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. We expect the revised IAS 1 to affect the presentation of our consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances.
- IFRIC 12 “Service Concession Arrangements” (“IFRIC 12”), which is effective for annual periods beginning on or after January 1, 2008. Service concessions are arrangements whereby a government or other public sector entity grants contracts for the supply of public services – such as roads, airports and other facilities – to private sector operators. The interpretation addresses how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements. The application of IFRIC 12 is not expected to materially affect our consolidated financial statements
- IFRIC 13 “Customer Loyalty Programmes” (“IFRIC 13”), which is effective for annual periods beginning on or after July 1, 2008. IFRIC 13 addresses whether the entity’s obligations to provide free or discounted goods or services in the future should be recognized and measured, and if consideration is allocated to the award credits how much should be allocated to them, when revenue should be recognized and, if a third party supplies the awards, how revenue should be measured. The application of IFRIC 13 is not expected to materially affect our consolidated financial statements.
- Amendment to IAS 32 and IAS 1 (“Puttable financial instruments and obligations arising on liquidation”), which is effective from January 1, 2009. The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. We do not expect the amendment to materially affect our consolidated financial statements.
- Amendment to IAS 27, which is effective for annual periods beginning on or after July 1, 2009. The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising due to the loss of control of a subsidiary. At the date when control is lost, any investment

retained in the former subsidiary will have to be measured at its fair value. We are currently assessing the impact of the amended standard on the consolidated financial statements.

- Amendment to IFRS 3, which is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in an acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at the relevant acquisition date between the fair value of any investment in the business held before the acquisition and the sum of the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. We are currently assessing the impact of the amended standard on the consolidated financial statements.
- Amendment to IFRS 2 "Share-based Payment" ("Vesting Conditions and Cancellations"), which is effective for annual periods beginning on or after January 1, 2009. The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The application of the amended standard is not expected to materially affect our consolidated financial statements.
- Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the IASB decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in the case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for the trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over the manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. We do not expect the amendments to have any material effect on the consolidated financial statements.
- Amendment to IFRS 1 and IAS 27 ("Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"), which is effective for annual periods beginning on or after January 1, 2009. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The

amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on our consolidated financial statements.

Certain Factors Affecting our Results of Operations

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

- the impact of fluctuations in ruble exchange rates against the U.S. dollar and euro;
- our historically high tax burden;
- interest rates;
- non-cash settlements; and
- impairment of assets.

The export price of natural gas

Our results of operations are heavily reliant on natural gas export prices. U.S. dollar prices for the natural gas we export increased in 2007 compared to 2006, and in 2006 compared to 2005. Our natural gas export prices to Far Abroad countries are indexed mainly to oil product prices as stipulated in long-term contracts and, therefore, fluctuate based on world oil prices. Due to the formulas underlying our long-term contracts, our prices are not as volatile on a short-term basis as spot oil prices and tend to lag upward and downward movements in oil product prices by approximately six to nine months.

The Gas Directive established common rules for the transmission, distribution, supply and storage of natural gas in the European market and influenced European market structures and the overall level and volatility of prices.

Natural gas export prices for sales to FSU countries are mainly based on one-year fixed price contracts. Average natural gas export prices to FSU countries are usually below the level of those for Far Abroad countries. This is partly due to lower transportation costs but is principally due to the impact of intergovernmental agreements, which effectively limit the prices we can charge to FSU countries.

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

The following table shows our average natural gas export price to Far Abroad and FSU countries for the years ended December 31, 2007, 2006 and 2005 (including excise tax and customs duties, net of VAT):

	Year ended December 31,		
	2007	2006	2005
	(Including excise tax and customs duties, net of VAT)		
Our natural gas export price to Far Abroad countries (average realized U.S.\$ per mcm) ⁽¹⁾	269.4	261.9	192.4
Our natural gas export price to Far Abroad countries (average realized U.S.\$ per mcf) ^(1,2)	7.6	7.4	5.4
Our natural gas export price to Far Abroad countries (average nominal RR per mcm).....	6,891.4	7,119.4	5,443.6
Our natural gas export price to FSU countries (average realized U.S.\$ per mcm) ⁽¹⁾	110.9	88.6	60.7
Our natural gas export price to FSU countries (average realized U.S.\$ per mcf) ^(1,2)	3.1	2.5	1.7
Our natural gas export price to FSU countries (average nominal RR per mcm).....	2,835.3	2,408.4	1,716.1

Notes:

(1) Average realized nominal prices and not convenience translations of ruble prices.

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

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

Regulation of domestic natural gas prices and transportation tariffs

Natural gas prices and transportation tariffs in Russia are regulated by the Government. See “Gazprom – Overview – Relationship with the Government”.

Natural gas prices in Russia have remained significantly below export prices (even after netting back export tariffs and transportation costs) primarily due to governmental regulation by the FTS. Since 1997, the FTS has reset domestic gas tariffs at rates that, on a cumulative basis, failed to recover fully the effects of ruble inflation. As of December 31, 2007, the domestic natural gas price was 481% higher in nominal ruble terms than in 1997, whereas cumulative inflation over the period from December 31, 1997 to December 31, 2007 was 587%.

Since 2000, however, domestic natural gas prices have increased at a rate greater than inflation. For example, in the period from January 1, 2002 to December 31, 2007, average domestic natural gas prices (including excise tax net of VAT) increased by 143%, while cumulative inflation in the same period was 92%.

The following table shows our average domestic natural gas price (including excise tax and net of VAT) for the years ended December 31, 2007, 2006 and 2005:

	Year ended December 31,		
	2007	2006	2005
	(Including excise tax, net of VAT)		
Our domestic natural gas price (average nominal RR per mcm)	1,301.1	1,129.4	1,014.1
Our domestic natural gas price (average nominal RR per mcf) ⁽²⁾	36.8	32.0	28.7
Our domestic natural gas price (average U.S.\$ per mcm) ⁽¹⁾	50.9	41.5	35.9
Our domestic natural gas price (average U.S.\$ per mcf) ^(1,2)	1.4	1.2	1.0

Notes:

(1) Average realized nominal prices and not convenience translations of ruble prices.

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

At a meeting of the Government held on May 6, 2008, a series of marginal domestic price increase rates were approved for the period from 2009 to 2011, See “Gazprom—Marketing—Domestic market conditions”.

During the years ended December 31, 2007, 2006 and 2005, our sales revenues derived from gas transportation services for third parties were 2%, 2% and 2% of total sales (net of excise tax, VAT and customs duties).

Price of crude oil

Our net sales of crude oil, which significantly increased after the acquisition of Gazprom Neft in October 2005, for the years ended December 31, 2007, 2006 and 2005 were RR147,552 million, RR151,613 million and RR38,591 million, respectively. This represents approximately 6%, 7% and 3% of our net sales for the years ended December 31, 2007, 2006 and 2005, respectively. Our operations are affected by the prevailing price of crude oil, both in domestic and international oil markets. Crude oil prices have historically been highly volatile, dependent upon the balance between supply and demand, global and regional economic and political developments in resource-producing regions, particularly in the Middle East, global economic conditions and are sensitive to the production levels of OPEC. Crude oil prices in the Russian Federation have historically been lower than in the international market primarily due to additional costs (in particular, customs duties) associated with exporting crude oil. Domestic crude oil prices are contract specific as there is no active market for domestic crude oil and market prices are not available.

Impact of inflation and changes in exchange rates on export sales and operating margins

68%, 70% and 69% of our gross sales (including excise tax and customs duties, net of VAT) for the years ended December 31, 2007, 2006 and 2005, respectively, were denominated in U.S. dollars or euro, while most of our costs were denominated in rubles. The relative movements of inflation and exchange rates therefore significantly affect our results of operations. In particular, our operating

margins are generally adversely affected by appreciation of the ruble against the U.S. dollar or euro, because this will generally cause our costs to increase relative to our sales revenues. The pressure on operating margins arising from ruble appreciation is intensified by the relatively high inflation rate in Russia, which can further increase our costs, though this can be offset by domestic price rises when permitted by the FTS. Conversely, our operating margins are generally positively affected by depreciation of the ruble against the U.S. dollar or euro, because this will generally cause our costs to decrease relative to our sales revenues.

The following table sets forth the rates of inflation in Russia, the rates of nominal appreciation or depreciation of the ruble against the U.S. dollar and euro (calculated using the exchange rates at the end of each period) and the rates of real change in the value of the ruble against the U.S. dollar and euro for the periods shown:

	Year ended December 31,		
	2007	2006	2005
Inflation ⁽¹⁾	11.9%	9.0%	10.9%
Nominal appreciation (depreciation) of the RR against the U.S.\$	6.8%	8.5%	(3.7)%
Real appreciation of the RR against the U.S.\$	20.0%	19.1%	6.9%
Nominal appreciation (depreciation) of the RR against the euro	(3.6)%	(1.5)%	9.7%
Real appreciation of the RR against the euro	8.0%	7.4%	22.8%

Note:

(1) Inflation based on consumer price index (CPI).

Nominal appreciation of the ruble generally also results in foreign exchange losses on monetary assets denominated in foreign currencies and foreign exchange gains on monetary liabilities denominated in foreign currencies. These gains and losses are recorded on a gross basis. See “Net finance income.”

Our historically high tax burden

We are subject to a wide range of taxes imposed at federal, regional, and local levels and we provide one of the largest sources of tax revenue to the federal authorities in Russia, as well as to the regional and local authorities in those regions and localities in which we operate. The current economic situation in Russia could require the federal, regional and local authorities to increase our already substantial tax burden to address social and economic issues.

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

In addition to profit tax, we are subject to a number of other taxes and similar compulsory payments in Russia, some of which are based on revenue or volumetric measures. Natural resources production tax for gas is calculated based on the volume of natural gas produced and for gas condensate is based on the volume of gas condensate produced and the average sales price adjusted for tax purposes. Social taxes and contributions are a function of salaries and wages. Significant taxes and similar charges to which we have been subject since 2005 include:

- profit tax;
- excise tax for certain oil products (effective from January 1, 2007, the excise tax for such oil products is paid by the producer of the oil products in the processing scheme);
- VAT (effective January 1, 2006, VAT is paid on the earlier of the payment or delivery date and input VAT is capable of being recovered even though actual payment is not made. Prior to January 1, 2006, VAT related to sales of goods, works and services was payable upon collection of receivables from customers, and input VAT was reclaimable against sales VAT upon payment for purchased goods, works and services);
- natural resources production tax. (effective from January 1, 2006, the natural resources production tax rate for natural gas increased to a fixed rate of RR147/mcm). Subsequent to the acquisition of Gazprom Neft in October 2005, our crude oil production and payments of natural resources production tax for oil significantly increased. The natural resource production tax rate for oil through December 31, 2006 was equal to the statutory determined rate of RR419 per ton multiplied by the oil price ratio, which varied between

4.7 and 6.2. Effective from January 1, 2007, the natural resources production tax rate for oil was equal to the statutory determined rate of RR419 per ton multiplied by the oil price ratio and multiplied by the rate of field depletion;

- gas customs duty;
- property tax; and
- social taxes and contributions.

Our overall effective profit tax rates (current and deferred tax expense as a percentage of IFRS profit before profit tax and minority interest) for the years ended December 31, 2007, 2006 and 2005 were 24.8%, 25.7% and 29.8%, respectively, while the statutory income tax rate in Russia was 24% in each of the periods. The difference between our effective profit tax rates and the statutory rates and the volatility of effective rates since 2005 has been primarily the result of non-deductible expenses such as social expenses, charitable donations, expenses exceeding prescribed limits for certain deductions and other non-production costs.

Interest rates

We have significant short-term and long-term debt obligations with both fixed and variable interest rates. We are exposed to the effects of fluctuations in the prevailing levels of market interest rates on our financial position, results of operations and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest-bearing assets differs from that of liabilities, net interest expense will increase or decrease as a result of movements in interest rates. We do not have any significant hedging arrangements to mitigate interest rate risks resulting from our financing activities. See “–Liquidity and Capital Resources-Debt obligations.”

Non-cash settlements

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

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

As the general economic climate in Russia has improved, the volume and value of these transactions has generally decreased. In the years ended December 31, 2007, 2006 and 2005, approximately 8%, 13% and 15%, respectively, of our settlements of accounts payable and accrued charges were settled via non-cash settlements. Approximately 3%, 7% and 10% of our settlements of accounts receivable during the years ended December 31, 2007, 2006 and 2005, respectively, were settled via mutual settlements or other non-cash settlements.

Non-cash settlements primarily represent settlements using promissory notes issued by third parties. We receive promissory notes from our customers (both issued by customers and third parties). Promissory notes issued by customers are recorded in the same manner as accounts receivable we originate (i.e., at estimated fair value). Promissory notes issued by third parties are recorded as available-for-sale financial assets. Over the period, the difference between the carrying value of the payables being settled and the face value of the promissory notes is recorded as interest expense within finance expenses. Promissory notes payable are shown separately in our consolidated balance sheet. See “–Liquidity and Capital Resources-Debt obligations.”

Impairment provisions

Historically, our results have been affected by impairment provisions on accounts receivable, inventory, property, plant and equipment (including assets under construction), financial assets, other long-term assets and provisions for guarantees and other charges.

For the years ended December 31, 2007, 2006 and 2005, expenses net of release for such impairment provisions were RR7,708 million, RR14,384 million and RR8,774 million, respectively.

Our provisions for accounts receivable are significant. As of December 31, 2007, the aggregate balance sheet provision for accounts receivable and prepayments was RR108,682 million, or 9% of the gross receivable balance. Such provisions for accounts receivable relate mainly to receivables from

parties on whose behalf we executed financial guarantees, and to receivables for natural gas sold to Moldova, former Yugoslavian countries and consumers in the Chechen Republic and other southern regions of Russia.

Our provisions for property, plant and equipment are also significant. As of December 31, 2007, the aggregate balance sheet provision related to property, plant and equipment was RR94,386 million, or 2.6% of gross property, plant and equipment. Of this aggregate balance sheet provision, RR92,060 million relates to assets under construction, representing 14.2% of gross assets under construction. The impairment provision for assets under construction as of December 31, 2007 primarily relates to the following projects: RR23,092 million for part of the Obskaya-Bovanenkovo railroad construction; RR22,845 million for certain development projects in the Bovanenkovskoye and Kharasaveiskoye fields; and RR25,971 million for the Novy Urengoi Chemical Complex. Although these projects have not been abandoned, under the current investment program we do not believe they will generate positive cash flows in the near future.

For the years ended December 31, 2007, 2006 and 2005, the charge for impairment provisions for property, plant and equipment (including assets under construction) generated expense totalled RR4,938 million, RR7,964 million and RR1,908 million, respectively.

Because of our operating cycle, certain significant decisions about capital construction projects are made at the end of our fiscal year. Accordingly, we typically have larger charges (releases) in the fourth quarter of our fiscal year as compared to other quarters. For a discussion of our impairment provisions in the years ended December 31, 2007, 2006 and 2005, see “–Results of Operations-Year ended December 31, 2007 versus year ended December 31, 2006” and “–Results of Operations-Year ended December 31, 2006 versus year ended December 31, 2005.”

Certain Acquisitions and Dispositions

Acquisitions and dispositions to December 31, 2007

In the third quarter of 2002, we signed agreements to acquire additional interests in a number of Russian petrochemical companies, the majority of which were already affiliated with OAO Sibirsko-Uralskaya Neftegazovaya Kompania (“AK Sibur”), a leading marketer of petrochemical products in Russia, which was consolidated as our subsidiary since January 1, 2001. In April 2003, following the completion of legal procedures, we established control over the majority of these companies, consolidating throughout the period, and thereby increased our controlling interest in the share capital of AK Sibur from 50.7% to 75.7%. In respect of this acquisition, we issued long-term promissory notes with a nominal value of RR17,587 million. In September 2003, we acquired an additional 2.4% interest in AK Sibur for RR102 million. In April 2004, we acquired a further 14.23% interest in AK Sibur pursuant to an agreement with ZAO Gazoneftekhimicheskaya Kompania. The nominal value of the long-term promissory note we issued in connection with this transaction was RR669 million as of December 31, 2004. As a result of these transactions, we increased our controlling interest in the charter capital of AK Sibur from 78.1% to 92.3%. In a transaction related to the previous acquisitions, in August 2004, we acquired a 100% interest in OOO Triodecor, a shareholder of AK Sibur, at a nominal value of RR8,400 paid in cash, thereby increasing our controlling interest in AK Sibur to 99.9%. We revised our estimation of the fair value of the above-mentioned long-term promissory notes we issued to RR2,745 million as of December 31, 2004. During 2005, we settled these promissory notes. The financial effect of these transactions was not material to our financial position or results of operations. Following a restructuring of our petrochemical companies, in December 2005 we established Sibur Holding which became the owner of AK Sibur’s and its subsidiaries’ petrochemical assets and the successor to operations previously conducted by AK Sibur.

In January 2003, in accordance with an option pursuant to a purchase agreement for global depositary receipts (“GDRs”) of OAO TV Company NTV (“NTV”) dated April 1, 2001, we acquired NTV GDRs from the SmallCap World Fund Inc. for U.S.\$32 million paid in cash. In February 2003, these GDRs were exchanged for common shares of NTV and OAO TNT-Teleset (“TNT-Teleset”). As a result of this transaction, we increased our interest in NTV from 65.0% to 69.4% and in TNT-Teleset from 50.0% to 51.7%. In May and June 2006, we purchased an additional ownership interest in certain media companies, including 23.52% of OAO NTV-Plus (“NTV-Plus”) and 30.56% of NTV, for RR2,171 million from OOO Group Evrofinance, thereby increasing our interest in each of these companies to 100%. Debt related to the acquisition of these companies was fully repaid.

Before October 2002, we and ZAO Rosshelf (“Rosshelf”), our 53% owned subsidiary, had 99.1% and 0.9% direct interests, respectively, in a joint activity established to develop the Arctic shelf (Shtokmanovskoye and Prirazlomnoye fields) in the Barents and Pechora Seas. In October 2002, we and Rosshelf signed an amendment to the joint activity agreement that provided for the addition of ZAO Sevmorneftegaz (“Sevmorneftegaz”). Sevmorneftegaz was jointly controlled by Rosshelf and OAO NK Rosneft-Purneftegaz (“Rosneft-Purneftegaz”), a subsidiary of Rosneft. Under the agreement, in February 2003, Sevmorneftegaz made a non-cash contribution valued at RR4,334 million, thereby obtaining a 48.9% interest in the joint activity. As a result of the transaction, we and Rosshelf held 48.7% and 2.4% direct interests in the joint activity, respectively, and our total effective interest decreased from 99.6% to 62.9%. In July 2003, Rosneft signed an agreement to acquire a 49.95% direct interest in the joint activity in recognition of its prior investment into the joint activity through Rosneft-Purneftegaz. The effect of this transaction was to decrease our total effective interest in the joint activity from 62.9% to 48.85%. In December 2004, we signed agreements and paid RR6,291 million in cash to acquire from Rosneft its 49.95% interest in the joint activity. In December 2004, we purchased from Rosneft-Purneftegaz an 8.0% interest in the share capital of Sevmorneftegaz for RR5,968 million paid in cash. As a result of these transactions, we increased our interest in Sevmorneftegaz from 50.0% to 58.0% and became the only participant in the joint activity. Since December 31, 2004, the assets and liabilities of the joint activity and Sevmorneftegaz have been consolidated on our balance sheet. In March 2005, we acquired the remaining 42% interest in Sevmorneftegaz from Rosneft-Purneftegaz, for RR31,335 million that we had paid in cash in December 2004. In total, we paid RR43,594 million in December 2004 to Rosneft and Rosneft-Purneftegaz to acquire these interests, net of cash paid for promissory notes of Sevmorneftegaz.

In April 2003, we acquired 25.9% of the ordinary shares of OAO Stroytransgaz (“Stroytransgaz”) for consideration with a fair value of RR3,336 million, including primarily promissory notes and cash. In August 2003, we acquired 15.54% of the preferred shares and an additional 0.2% of the ordinary shares of Stroytransgaz for RR152 million. In February 2006, Gazprombank obtained control over Investone Projects Limited which holds a 18.5% interest in Stroytransgaz. In June 2006, we disposed our 26.1% of the ordinary shares and 15.54% of the preferred shares of Stroytransgaz to third parties for RR4,477 million. We continue to exercise significant influence over Stroytransgaz through our representatives on its board of directors.

In May 2003, Gazprombank acquired a 15.76% interest in Mosenergo for RR10,900 million. In the year ended December 31, 2004, we acquired an additional 9.25% interest in Mosenergo for RR7,455 million paid in cash, increasing our interest in Mosenergo to 25.01%. As a result of this acquisition, we obtained significant influence over Mosenergo, and our investment in Mosenergo was reclassified from short-term financial assets to investments in associated undertakings and jointly controlled entities. In June 2004, the general shareholders meeting of Mosenergo approved a restructuring of the company, which set up 13 new companies. As a result of the restructuring, in April 2005, each Mosenergo shareholder, including us, received interests in each of the 13 new companies in equal proportion to its shareholding in Mosenergo, and continued to hold the same number of common shares of Mosenergo. There were no significant gains or losses resulting from this transaction. In July 2006, we purchased an additional 4.72% interest in Mosenergo and companies established pursuant to the restructuring of Mosenergo for U.S.\$350 million. As a result of the acquisition, our share in Mosenergo increased to 29.89%. In May 2007, following an additional share issue by Mosenergo, we increased our interest in the share capital of Mosenergo to a controlling interest of 50.95% for cash consideration of RR66,163 million. In the second half of 2007, we increased our share in Mosenergo to 53.47%.

In January 2004, Gazprombank acquired a 5.2% direct interest in UES for RR19,800 million. In July 2005, we acquired a 100% interest in OOO Gazoenergeticheskaya Kompaniya (“GEK”) for RR3,960 million paid in cash. GEK holds a 5.3% interest in UES. In addition, in July 2005, we repaid a loan in the amount of RR13,864 million which GEK had previously received in order to acquire the interest in UES. As a result of these transactions we increased our interest in UES from 5.2% to 10.5%.

In July 2004, we established RosUkrEnergo AG (“RosUkrEnergo”) a jointly controlled company, in which we own 50%. Since January 2005, RosUkrEnergo has been engaged in selling gas produced in Russia and central Asia to Ukraine and other countries.

In January 2005, we acquired a further 9% interest in AO Latvijas Gaze (“Latvijas Gaze”), our associate undertaking, from OOO Itera Latvia for U.S.\$58 million, increasing our interest to 34% plus one share.

In June 2005, Gazprom's Board of Directors approved the sale of treasury shares held by our subsidiaries to Rosneftegaz, a wholly state-owned company. The shares, representing 10.74% of Gazprom's shares, were sold during June and July 2005 for total consideration of RR203,502 million payable in cash. Profit tax attributed to this transaction was approximately RR22,573 million. Resulting from this transaction, Gazprom's shareholders' equity was increased by RR180,929 million. In 2005, cash payments of RR203,502 million were received from Rosneftegaz. The transaction had no significant impact on our consolidated results of operations. Following this transaction, the Government held a direct controlling interest in Gazprom. Following the General Meeting of Shareholders in June 2005, the 11 seats on the Board of Directors consist of six state representatives, three management representatives and two independent directors. Governmental economic and social policies affect our financial position, results of operations and cash flows.

Until 2001, we held a 51% stake in OAO Nortgaz ("Nortgaz"), a company that holds licenses for the development of the North Urengoiyskoye field. Our initial stake was reduced to 0.5% in 2001 as a result of a court decision invalidating our participation in a share issuance by Nortgaz in 1999 on the basis that the value of the property that we contributed to Nortgaz had not been approved by its board of directors. On June 10, 2005, we concluded an agreement with the shareholders of Nortgaz that provided for our interest in Nortgaz to be increased to 51% and for all litigation in respect of our stake in Nortgaz to be terminated without payment of additional compensation. The agreement also provides for how Nortgaz is to be managed by its shareholders following our acquisition of such additional shares, and in certain circumstances requires us to sell the 51% of the shares that we own or to purchase the remaining 49% of the shares. On September 21, 2005, we obtained legal ownership of 51% of the ordinary shares of Nortgaz. On the same date, the general shareholders' meeting of Nortgaz decided to change the legal form of Nortgaz from an open joint stock company to a closed joint stock company (renamed ZAO Nortgaz).

In September 2005, we acquired a 3.02% interest in Gazprom Neft for RR16,408 million paid in cash. In October 2005, we acquired an additional 72.66% interest in Gazprom Neft for U.S.\$13,079 million, which we borrowed from a syndicate of banks. As a result of this transaction, we increased our total interest in Gazprom Neft to 75.68%. With the acquisition of Gazprom Neft, we acquired a 38.83% interest in the Moscow Refinery and a 49.85% interest in Slavneft.

In November 2005, we, BASF AG ("BASF") and E.ON AG ("E.ON") established a jointly controlled company, Nord Stream AG, which was formerly known as the North European Gas Pipeline Company ("Nord Stream"), with ownership interests equalling 51%, 24.5% and 24.5%, respectively. The share capital of the newly established company equalled CHF 1,000,000.

In April 2006, we entered into an agreement with BASF to swap certain assets related to the development of the Yuzhno-Russkoye field in western Siberia. In accordance with the agreement with BASF to swap certain assets on December 17, 2007, we received 15% less one share in Wintershall Gas GmbH (WINGAS GmbH), increasing our share in the entity from 35% to 50% less one share, and 49% in Wintershall AG ("Wintershall"), the license holder for the development of certain Libyan oil concessions (C96 and C97). We also received €598 million in cash. BASF received 25% less one ordinary share and one non-voting share, which is equal to 10% of income from the project, in OAO Severneftegazprom ("Severneftegazprom").

In June 2006, we signed an agreement with Itera whereby Itera will take part in expanding, reconstructing and modernizing the UGSS. Under the agreement, we and Itera also intend to develop and implement a project aimed at erecting infrastructure for the transmission of gas condensate from its production facilities (located on the fields developed by both companies) to final consumers. Additionally, we and Itera will take part in creating joint oil and gas chemicals production facilities.

In September 2006, we purchased a 19.39% interest in OAO Novatek ("Novatek") for U.S.\$2,338 million payable in cash. As a result of the acquisition and considering the subsequent board of directors' elections where we appointed two of eight board members, we are able to exercise significant influence in the policy decisions of Novatek. Novatek is the largest independent gas producer in Russia.

In December 2006, we acquired a 51% interest in OAO Sibneftegaz ("Sibneftegaz") for U.S.\$130 million.

In the three-month period ended March 31, 2007, there were changes in Russian legislation relating to pension funds, specifically Regulation No. 63 dated February 1, 2007, which introduced stringent requirements on the investment policies of pension funds and on the composition of investment portfolios. After evaluating and assessing the specific provisions of these new legal

requirements, in March 2007, we decided to discontinue the use of Gazfund as our primary investment vehicle and deconsolidate it from our consolidated financial information since the first quarter of 2007. As a result of this deconsolidation, Gazfund's investment assets are now accounted for as plan assets on our consolidated balance sheet under IAS 19. The principal balance sheet line items affected are short-term financial assets, other non-current assets, provisions for liabilities and charges, minority interest and equity including treasury shares. In addition, where Gazfund continues to hold ownership interests in Group subsidiaries (for example, Gazprombank and Sibur Holding), those interests are reflected as minority interest in our consolidated financial statement as of and for the year ended December 31, 2007.

In March 2007, we entered into a production sharing agreement with the National Oil Corporation of Libya to develop offshore hydrocarbon block No. 19. We plan to invest approximately U.S.\$200 million in exploration of the field for the period through 2012.

In April 2007, EniNeftegaz, an entity owned by Eni and Enel, won an auction for certain oil and gas assets of OAO Yukos ("Yukos"), including interests in OAO Arcticgaz ("Arcticgas"), ZAO Urengoil Inc. ("Urengoil") and OAO Neftegaztehnologia ("Neftegaztehnologia") and a 20% interest in Gazprom Neft, agreeing to pay U.S.\$5.82 billion for the assets. We entered into two two-year call option agreements with Eni and Enel to have the right to acquire both a 20% interest in Gazprom Neft and a 51% interest in EniNeftegaz. We did not participate in any way, including financially, in EniNeftegaz's preparation for or participation in the auction. We do not have any ownership in the relevant assets absent our exercise of the options.

In April 2007, we completed our previously announced acquisition of a 50% plus one share interest in Sakhalin Energy, the operator of the Sakhalin II project, for which we paid U.S.\$7.45 billion. See "Gazprom—Reserves and Production—projects and alliances in reserves and production—Sakhalin II." We account for Sakhalin Energy as our associated undertaking because the new shareholding structure provides us with significant influence rather than control.

In May 2007, we entered into an agreement with the Republic of Belarus to acquire a 50% interest in OAO Beltransgaz ("Beltransgaz"), a gas transportation company, for U.S.\$2,500 million. The parties agreed that we will acquire a 12.5% interest per annum over the next four years beginning in 2007, with annual payments of U.S.\$625 million. In June 2007 and January 2008, we made two payments in the aggregate amount of U.S.\$1,250 million, for which we received a 25% total interest in Beltransgaz.

In September 2007, we obtained a 5% interest in OAO TGK-5 and a 5.27% interest in OAO OGK-5 as a result of the restructuring of RAO UES.

In October 2007, we purchased a 12.22% interest in OGK-2 for RR16 billion. To finance this acquisition we obtained loans from Dresdner Bank AG in the amounts of U.S.\$550 million and U.S.\$120 million at an interest rate of the London interbank offered rate ("LIBOR") + 1.3% due in November 2008. In December 2007, we purchased a 17.13% interest in OGK-6 for RR21 billion.

In December 2007, we acquired 50% of the voting shares of OAO Tomskneft VNK ("Tomskneft") for RR88,181 million payable in cash.

Recent developments

In February 2008, we purchased a 28.7% interest in TGK-1 for amount of RR39,219 million from RAO UES of Russia in accordance with a share purchase agreement.

In April 2008, Gazprombank agreed to transfer a 50% plus one share interest in Sibur Holding in connection with a proposed management buyout for a total consideration of RR53,500 million. RR16,600 million will be received in cash at the date of sale; the rest of the proceeds will be due in several installments with the contractual maturities from 3 months to 3 years. All amounts receivable will be interest-bearing.

Results of Operations

The following table summarizes our consolidated results of operations for the years ended December 31, 2007, 2006 and 2005. Each line-item is also shown as a percentage of our total sales.

	Year ended December 31,					
	2007		2006		2005	
	RR million	% of sales	RR million	% of sales	RR million	% of sales
Sales (net of excise tax, VAT and customs duties).....	2,390,467	100%	2,152,111	100%	1,383,545	100%
Operating expenses....	(1,688,689)	(71%)	(1,363,923)	(63%)	(929,561)	(67%)
Operating profit	701,778	29%	788,188	37%	453,984	33%
Gain from sale of interest in subsidiary	50,853	2%	—	—	—	—
Gain from change in fair value of call option	50,738	2%	—	—	—	—
Deconsolidation of NPF Gazfund	44,692	2%	—	—	—	—
Net finance income (expense).....	26,807	1%	32,703	2%	(16,036)	(1%)
Share of net income of associated undertakings and jointly controlled entities	24,234	1%	26,363	1%	11,782	1%
Gains on disposal of available-for-sale financial assets.....	25,102	1%	8,811	0%	385	0%
Profit before profit tax	924,204	39%	856,065	40%	450,115	33%
Current profit tax expense	(218,266)	(9%)	(213,844)	(10%)	(118,028)	(9%)
Deferred profit tax expense	(10,953)	(0%)	(5,760)	(0%)	(16,156)	(1%)
Total profit tax expense	(229,219)	(10%)	(219,604)	(10%)	(134,184)	(10%)
Profit for the period ...	694,985	29%	636,461	30%	315,931	23%
Attributable to:						
Equity holders of						
OAO Gazprom	658,038	28%	613,345	28%	311,125	22%
Minority interest.....	36,947	2%	23,116	1%	4,806	0%

Year ended December 31, 2007 versus year ended December 31, 2006

Sales

The following table sets out our volumes and realized prices for the years ended December 31, 2007 and 2006.

	Year ended December 31,	
	2007	2006
	(RR million unless indicated otherwise)	
Sales of gas		
<i>Far Abroad</i>		
Gross sales ⁽¹⁾	1,161,549	1,149,582
Excise tax.....	(96)	(1,396)
Customs duties	(288,043)	(302,319)
Net sales	873,410	845,867
Volumes in billion cubic meters (bcm).....	168.5	161.5
Gross average price, U.S.\$ per mcm ⁽²⁾ (including excise tax and customs duties) ⁽³⁾	269.4	261.9
Gross average price, RR per mcm ⁽²⁾ (including excise tax and customs duties)	6,891.4	7,119.4
<i>FSU (Former Soviet Union)</i>		
Gross sales (net of value added tax (VAT))	273,550	243,133
Excise tax.....	—	—
Customs duties	(18,709)	(33,414)
Net sales	254,841	209,719
Volumes in bcm.....	96.5	101.0
Gross average price, U.S.\$ per mcm ⁽²⁾ (including excise tax and customs duties, net of VAT) ⁽³⁾	110.9	88.6
Gross average price, RR per mcm ⁽²⁾ (including excise tax and customs duties, net of VAT).....	2,835.3	2,408.4
<i>Russia</i>		
Gross sales (net of VAT)	399,452	357,274
Excise tax.....	—	(1,241)
Net sales	399,452	356,033
Volumes in bcm.....	307.0	316.3
Gross average price, RR per mcm ⁽²⁾ (including excise tax, net of VAT).....	1,301.1	1,129.4
<i>Total sales of gas</i>		
Gross sales (net of VAT)	1,834,551	1,749,989
Excise tax.....	(96)	(2,637)
Customs duties	(306,752)	(335,733)
Net sales	1,527,703	1,411,619
Volumes in bcm.....	572.0	578.8
Net sales of refined products (net of excise tax, VAT and customs duties).....	492,438	434,985
Net sales of crude oil and gas condensate (net of excise tax, VAT and customs duties).....	167,758	171,709
Gas transportation sales (net of VAT).....	41,740	34,500
Other revenues (net of VAT).....	160,828	99,298
Total sales (net of excise tax, VAT and customs duties)	2,390,467	2,152,111

Notes:

- (1) VAT is not charged on sales to Far Abroad countries.
- (2) One mcm is equivalent to 35,316 cubic feet.
- (3) Calculated on the basis of average rate.

Total sales (net of excise tax, VAT and customs duties) increased by RR238,356 million, or 11%, to RR2,390,467 million in the year ended December 31, 2007 compared to the year ended December 31, 2006.

Net sales of gas accounted for 64% and 66% of total net sales in the years ended December 31, 2007 and 2006, respectively.

Net sales of gas increased from RR1,411,619 million in the year ended December 31, 2006 to RR1,527,703 million in the year ended December 31, 2007, or by 8%.

Net sales of gas to Far Abroad countries increased in the year ended December 31, 2007 compared to the year ended December 31, 2006 by RR27,543 million, or 3%. The increase resulted primarily from a 4% increase in sales volumes. The 3% decrease in the gross average price nominated in rubles (including excise tax and customs duties) was offset by the decrease in effective rate of customs duties. This decrease in the effective rate of customs duties was caused by an increase in sales from gas purchased outside Russia. Such sales are not subject to customs duties. The increase in sales volumes to Far Abroad countries was primarily due to increased sales to customers in Great Britain, Turkey, The Netherlands and Belgium.

Net sales of gas to FSU countries increased in the year ended December 31, 2007 compared to the year ended December 31, 2006 by RR45,122 million, or 22%, to RR254,841 million. This increase was mainly due to a 27% increase in the net average price in RR terms (net of excise tax, customs duties and VAT), which was partly offset by a 4% decrease in sales volumes. The increase in the net average price in RR terms was primarily due to the increase in sales prices to customers in Belarus, Kazakhstan, Lithuania, and Moldova. The increase in net average prices (excluding excise tax and customs duties, net of VAT) was affected by the decrease in the effective rate of customs duties. This decrease was primarily caused by the increased sales of gas from central Asia. Such sales are not subject to customs duties.

Net sales of gas in the domestic market increased by RR43,419 million, or 12%, to RR399,452 million in the year ended December 31, 2007 compared to the year ended December 31, 2006. This increase was mainly due to the 15% increase in domestic gas tariffs set by the Federal Tariffs Service, but was partly offset by a decrease in sales volumes by 3%, or 9.3 bcm.

Sales of refined products (net of excise tax, VAT and customs duties) increased by RR57,453 million, or 13%, to RR492,438 million in the year ended December 31, 2007 compared to RR434,985 million in the year ended December 31, 2006. The increase mainly relates to sales by Gazprom Neft and its consolidated subsidiaries, which accounted for 59% and 60% of the total sales of refined products for the years ended December 31, 2007 and 2006, respectively. The increase mainly resulted from the growth of sales within Russia due to both volume and price increases. Sales of refined products (net of excise tax, VAT and customs duties) accounted for 21% and 20% of our total sales (net of excise tax, VAT and customs duties) in the years ended December 31, 2007 and 2006, respectively.

Sales of crude oil and gas condensate (net of excise tax, VAT and customs duties) decreased by RR3,951 million, or 2%, to RR167,758 million in the year ended December 31, 2007 compared to RR171,709 million in the year ended December 31, 2006. Sales of crude oil (net of VAT and customs duties) included in net sales of crude oil and gas condensate, amounted to RR147,552 million and RR151,613 million in the years ended December 31, 2007 and 2006, respectively. The decrease mainly related to Gazprom Neft activities and because more oil we produced was used to produce refined products.

Gas transportation sales (net of VAT) increased by RR7,240 million, or 21%, to RR41,740 million in the year ended December 31, 2007 from RR34,500 million in the year ended December 31, 2006. This increase was mainly due to an increase in both transportation tariffs and volumes of gas transported.

Other revenues (net of VAT) increased by RR61,530 million, or 62%, to RR160,828 million in the year ended December 31, 2007 compared to RR99,298 million in the year ended December 31, 2006. Other revenues represent various activities including media, construction and sales of other goods and services. The increase was mainly caused by the consolidation of Mosenergo in the second half of 2007. Mosenergo contributed revenue of RR37,770 million to other revenues. Also, other revenues increased due to the growth of electricity sold by Gazprom Germania in 2007.

Operating expenses

Operating expenses increased by 24% in the year ended December 31, 2007 to RR1,688,689 million from RR1,363,923 million in the year ended December 31, 2006. Operating expenses as a percentage of sales increased from 63% in the year ended December 31, 2006 to 71% in the year ended December 31, 2007. The table below presents a breakdown of operating expenses in each period:

	Year ended December 31,			
	2007		2006	
	(RR million)	% of net sales	(RR million)	% of net sales
Purchased oil and gas.....	382,054	16%	280,062	13%
Staff costs	248,894	10%	199,588	9%
Taxes other than on income.....	196,993	8%	187,245	9%
Depreciation	183,577	8%	167,446	8%
Transit of gas, oil and refined products	152,093	6%	156,489	7%
Repairs and maintenance	118,058	5%	95,190	4%
Materials.....	94,520	4%	81,810	4%
Cost of goods for resale, including refined products.....	56,643	2%	51,041	2%
Electricity and heating expenses.....	44,901	2%	42,559	2%
Social expenses	16,343	1%	18,563	1%
Research and development.....	15,486	1%	13,123	1%
Rental expenses	13,568	1%	8,890	0%
Insurance expenses.....	12,950	1%	10,448	1%
Processing services.....	10,090	1%	8,363	0%
Impairment provisions.....	7,708	0%	14,384	1%
Transportation services.....	6,675	0%	6,130	0%
Other operating expenses.....	128,136	5%	22,592	1%
Total operating expenses	1,688,689	71%	1,363,923	63%

Purchased oil and gas

Cost of purchased oil and gas increased by 36% to RR382,054 million in the year ended December 31, 2007, from RR280,062 million in the year ended December 31, 2006. The cost of purchased gas included in the cost of purchased oil and gas amounted to RR299,465 million and RR202,975 million in the years ended December 31, 2007 and 2006, respectively. The increase primarily related to the increase in prices of gas purchased in central Asia, mainly used for further reselling.

Staff costs

Staff costs increased by 25% to RR248,894 million in the year ended December 31, 2007 from RR199,588 million in the year ended December 31, 2006. The increase mainly resulted from the growth of average base salaries and an increase in expenses associated with pension obligations.

Taxes other than on income

Taxes other than on income consist of:

	Year ended December 31,	
	2007	2006
	(RR million)	
Natural resources production tax.....	165,097	158,480
Property tax.....	21,638	21,825
Other taxes.....	10,258	6,940
Taxes other than on income.....	196,993	187,245

Depreciation

Depreciation increased by 10% to RR183,577 million in the year ended December 31, 2007 from RR167,446 million in the year ended December 31, 2006. The increase primarily related to the growth in our fixed asset base.

Transit of gas, oil and refined products

Transit of gas, oil and refined products decreased by 3% to RR152,093 million in the year ended December 31, 2007 from RR156,489 million in the year ended December 31, 2006. This decrease mainly related to the decrease in volumes of gas transported through Ukraine and eastern European countries and depreciation of the U.S. dollar against the ruble in 2007 compared to 2006.

Repairs and maintenance

Cost of repairs and maintenance increased by 24% to RR118,058 million in the year ended December 31, 2007 from RR95,190 million in the year ended December 31, 2006. The increase was primarily due to an increase in volume of repairs and maintenance services rendered by third party providers mainly in the Transport segment.

Materials

Cost of materials increased by 16% to RR94,520 million in the year ended December 31, 2007 from RR81,810 million in the year ended December 31, 2006. The increase was primarily related to higher prices of materials and increased volumes of purchases by the Transport and Refining segments.

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products increased by 11% to RR56,643 million in the year ended December 31, 2007 from RR51,041 million in the year ended December 31, 2006. The increase was mostly due to the higher cost of electricity purchased for resale.

Electricity and heating expenses

Electricity and heating expenses increased by 6% to RR44,901 million in the year ended December 31, 2007 from RR42,559 million in the year ended December 31, 2006, mainly due to increased electricity consumption and higher electricity tariffs, which are set by the FTS.

Other operating expenses

Other operating expenses increased to RR128,136 million in the year ended December 31, 2007 from RR22,592 million in the year ended December 31, 2006. Other operating expenses include bank charges, security services, legal and consulting services and advertising. Other operating expenses for the year ended December 31, 2006 include net gain on trading investments in the amount of RR35,177, which mainly related to the activity of NPF Gazfund. The increase in other operating expenses was due to the consolidation of Mosenergo in the second half of 2007. Mosenergo contributed expenses of RR10,857 million to other operating expenses. Moreover, the increase in other operating expenses is explained by the growth in geological expenses in 2007 and the loss on the fair value valuation of commodity contracts in 2007 as compared to a gain in 2006.

Operating profit

As a result of the factors discussed above, our operating profit decreased by RR86,410 million, or 11%, from RR788,188 million in the year ended December 31, 2006 to RR701,778 million in the year ended December 31, 2007. Our operating profit margin decreased from 37% in the year ended December 31, 2006 to 29% in the year ended December 31, 2007.

Gain from sale of interest in subsidiary

In accordance with the agreement with BASF to swap certain assets on December 17, 2007 we received 15% less one share in WINGAS GmbH, increasing our share in the entity from 35% to 50% less one share, and 49% in Wintershall, the license holder for the development of certain Libyan oil concessions (C96 and C97). These investments are shown within Investments in associated undertakings and jointly controlled entities on the consolidated balance sheet in the amount of RR19,620 million (€546 million) and RR10,259 million (€286 million), respectively. We also received €598 million in cash. BASF received 25% less one ordinary share and one non-voting share, which is equal to 10% of income from the project, in Severneftegazprom. Income obtained from this transaction was shown in a separate line in the consolidated statement of income in the amount of RR50,853 million.

Gain from change in fair value of call option

In April 2007, Eni offered to us an option to acquire a 20% interest in Gazprom Neft by April 2009, at a price of U.S.\$3.7 billion plus certain financial expenses. From the date of the signing of

the agreement until 31 December 2007, the change of the option's fair value amounted to RR50,738 million. In accordance with IAS 39, this derivative is recorded at fair value through profit and loss. The related financial asset is recorded in other non-current assets.

Deconsolidation of NPF Gazfund

In 1994, we founded the non-state pension fund NPF Gazfund. Historically, we consolidated NPF Gazfund primarily due to having control over the financial and investment decisions of NPF Gazfund. We used NPF Gazfund as our primary investment vehicle for purchasing strategic investments and NPF Gazfund did not have any other significant operations or investments.

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

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

This transaction resulted in the recognition of income in the amount of RR44,692 million and an increase in retained earnings in the amount of RR111,015 million due to the recognition of the fair value of the pension assets on our consolidated balance sheet.

Net finance income

	Year ended December 31,	
	2007	2006
	(RR million)	
Exchange gain.....	82,936	60,497
Exchange loss.....	(55,598)	(21,449)
Interest income	75,394	36,460
Interest expense.....	(76,975)	(43,771)
Gain on and extinguishment of restructured liabilities	1,050	966
Net finance income	26,807	32,703

Exchange gain increased by 37% to RR82,936 million in the year ended December 31, 2007, compared to RR60,497 million in the year ended December 31, 2006. This increase is primarily due to the increase in the volume of loans and borrowings denominated in U.S. dollars and the appreciation of the ruble against the U.S. dollar during the year ended December 31, 2007 compared to the year ended December 31, 2006.

Exchange loss increased by 159% to RR55,598 million in the year ended December 31, 2007 from RR21,449 million in the year ended December 31, 2006. The changes reflect the impact of the increase of the volume of loans and borrowings denominated in euro and the appreciation of the euro against the ruble in the year ended December 31, 2007 compared to the year ended December 31, 2006.

Interest income increased by 107% to RR75,394 million in the year ended December 31, 2007 from RR36,460 million in the year ended December 31, 2006, mainly due to an increase in loans issued by Gazprombank and bank current accounts. Interest expense increased by 76% from RR43,771 million in the year ended December 31, 2006 to RR76,975 million in the year ended December 31, 2007, mainly due to increased borrowings related to Gazprombank activity.

Share of net income of associated undertakings and jointly controlled entities

Share of net income of associated undertakings and jointly controlled entities decreased by RR2,129 million, or 8%, to RR24,234 million in the year ended December 31, 2007 compared to RR26,363 million in the year ended December 31, 2006. The decrease was primarily due to the reduction of our share of Mosenergo's net profit in the amount of RR2,696 million. This reduction arose from the inclusion of a share of Mosenergo's net loss for the first half of 2007 in the amount of RR125 million as against the share of net profit for 2006 in the amount of RR2,571 million. Starting from the second half of 2007, Mosenergo was consolidated as a subsidiary. Also net income of associated undertakings and jointly controlled entities decreased due to reduction of our share of Slavneft's net profit in the amount of RR3,655 million for the year ended December 31, 2007 compared to the year ended December 31, 2006. These effects were partly offset by the increase in our share of the net profit of Novatek and TOO KazRosGaz ("KazRosGaz") by RR3,093 million and RR1,406 million, respectively.

Profit tax expense

Total profit tax expense increased by RR9,615 million, or 4%, to RR229,219 million in the year ended December 31, 2007 compared to RR219,604 million in the year ended December 31, 2006. Our effective profit tax rate in the year ended December 31, 2007 compared to the year ended December 31, 2006 decreased from 26% to 25%.

Profit for the period attributable to equity holders of OAO Gazprom

As a result of the factors discussed above, our profit for the period attributable to equity holders of OAO Gazprom increased by RR44,693 million, or 7%, from RR613,345 million in the year ended December 31, 2006 to RR658,038 million in the year ended December 31, 2007.

Profit for the period attributable to minority interest

Minority interest increased by 60% to RR36,947 million in the year ended December 31, 2007 compared to RR23,116 million in the year ended December 31, 2006 due to the increase in the extent of minority interest in Gazprombank, Sibur Holding and their subsidiaries, caused by the deconsolidation of NPF Gazfund.

Year ended December 31, 2006 versus year ended December 31, 2005

Sales

The following table sets out our volumes and realized prices for the years ended December 31, 2006 and 2005.

	<u>Year ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
	(RR million unless indicated otherwise)	
Sales of gas		
<i>Far Abroad countries</i>		
Gross sales ⁽¹⁾	1,149,582	850,017
Excise tax.....	(1,396)	(133)
Customs duties	(302,319)	(230,785)
Net sales	845,867	619,099
Volumes in billion cubic meters (bcm).....	161.5	156.1
Gross average price, U.S.\$ per mcm ⁽²⁾ (including excise tax and customs duties) ⁽³⁾	261.9	192.4
Gross average price, RR per mcm ⁽²⁾ (including excise tax and customs duties)	<u>7,119.4</u>	<u>5,443.6</u>
<i>FSU</i>		
Gross sales (net of value added tax (VAT))	243,133	131,393
Excise tax.....	—	(2,975)
Customs duties	(33,414)	(20,027)
Net sales	209,719	108,391
Volumes in bcm.....	101.0	76.6
Gross average price, U.S.\$ per mcm ⁽²⁾ (including excise tax and customs duties, net of VAT) ⁽³⁾	88.6	60.7
Gross average price, RR per mcm ⁽²⁾ (including excise tax and customs duties, net of VAT).....	<u>2,408.4</u>	<u>1,716.1</u>
<i>Russia</i>		
Gross sales (net of VAT)	357,274	311,336
Excise tax.....	(1,241)	(1,351)
Net sales	356,033	309,985
Volumes in bcm.....	316.3	307.0
Gross average price, RR per mcm ⁽²⁾ (including excise tax, net of VAT).....	<u>1,129.4</u>	<u>1,014.1</u>
<i>Total sales of gas</i>		
Gross sales (net of VAT)	1,749,989	1,292,746
Excise tax.....	(2,637)	(4,459)
Customs duties	(335,733)	(250,812)
Net sales	1,411,619	1,037,475
Volumes in bcm.....	578.8	539.7
Net sales of refined products (net of excise tax, VAT and customs duties).....	434,985	202,870
Net sales of crude oil and gas condensate (net of excise tax, VAT and customs duties).....	171,709	52,591
Gas transportation sales (net of VAT).....	34,500	25,050
Other revenues (net of VAT).....	99,298	65,559
Total sales (net of excise tax, VAT and customs duties)	<u><u>2,152,111</u></u>	<u><u>1,383,545</u></u>

Notes:

- (1) VAT is not charged on sales to Far Abroad countries.
- (2) One mcm is equivalent to 35,316 cubic feet.
- (3) Calculated on the basis of average rate.

Total sales (net of excise tax, VAT and customs duties) increased by RR768,566 million, or 56%, to RR2,152,111 million in 2006 compared to 2005.

Net sales of gas accounted for 66% of total net sales in 2006 (75% in 2005). The changes in sales mix were caused by an increase in sales of crude oil and refined products subsequent to the acquisition of Gazprom Neft.

Net sales of gas increased from RR1,037,475 million in 2005 to RR1,411,619 million in 2006, or by 36%.

Net sales of gas to Far Abroad countries increased in 2006 compared to 2005 by RR226,768 million, or 37%. This increase resulted primarily from a 36% increase in gross average realized U.S. dollar export gas prices, as well as a 3% increase in sales volumes. The increase in export gas prices was caused by an increase in world prices for hydrocarbons, that are used as price-determinants in gas supply contracts. The increase in sales volumes was primarily due to increased volumes sold to customers in the United Kingdom, Turkey, Belgium, Romania, Poland and The Netherlands.

Net sales of gas to FSU countries increased compared to 2005 by RR101,328 million, or 93%, to RR209,719 million in 2006. This increase was due to a 47% increase in prices in RR terms (net of excise tax, customs duties and VAT) and a 32%, or 24.4 bcm, increase in sales volumes. The increase in prices in RR terms was primarily due to the increase in sales prices to customers in the Ukraine. The increase in sales volumes was mainly due to the increase of gas purchased by us in countries in central Asia (primarily in Turkmenistan) and further sold to RosUkrEnergO for its deliveries primarily to Ukraine.

Net sales of gas in the domestic market increased by RR46,048 million, or 15%, to RR356,033 million in 2006 compared to 2005. This increase was primarily due to the increase in domestic gas tariffs set by the FTS and increase in sales volumes by 3% or 9.3 bcm.

Net sales of refined products increased by RR232,115 million, or 114%, to RR434,985 million in 2006 compared to RR202,870 million in 2005. The increase was primarily due to the consolidation of Gazprom Neft from October 2005. Gazprom Neft contributed revenue of RR260,372 million, or 60% of the total net sales of refined products for 2006. The growth in price of refined products also contributed to the increase. Sibur Holding accounted for 25% and 46% of the total net sales of refined products in 2006 and 2005, respectively. Net sales of refined products accounted for 20% and 15% of our total sales (net of excise tax, VAT and customs duties) in 2006 and 2005, respectively.

Subsequent to the acquisition of Gazprom Neft in 2005, our crude oil production significantly increased. Sales of crude oil (net of VAT and customs duties), included in net sales of crude oil and gas condensate, amounted to RR151,613 million and RR38,591 million in 2006 and 2005, respectively.

Gas transportation sales increased by RR9,450 million, or 38%, to RR34,500 million in 2006 from RR25,050 million in 2005. This increase was primarily due to an increase in volumes of gas transported for RosUkrEnergO and an increase in transportation tariffs.

Other revenues increased by RR33,739 million, or 51%, to RR99,298 million in 2006 compared to RR65,559 million in 2005. Other revenues represent non-core activities, including media, construction works and sales of other services and goods.

Operating expenses

Operating expenses increased by 47% for the year ended December 31, 2006 to RR1,363,923 million from RR929,561 million for the year ended December 31, 2005. Operating expenses as a percentage of sales decreased from 67% for the year ended December 31, 2005 to 63% for the year ended December 31, 2006. The table below presents a breakdown of operating expenses for each period:

	Year ended December 31,			
	2006		2005	
	(RR million)	% of net sales	(RR million)	% of net sales
Purchased oil and gas.....	280,062	13%	87,723	6%
Staff costs	199,588	9%	168,076	12%
Taxes other than on income.....	187,245	9%	113,966	8%
Depreciation	167,446	8%	124,783	9%
Transit of gas, oil and refined products.....	156,489	7%	110,863	8%
Repairs and maintenance	82,305	4%	55,266	4%
Materials.....	81,810	4%	73,779	5%
Cost of goods for resale, including refined products.....	51,041	2%	24,540	2%
Electricity and heating expenses.....	45,062	2%	33,031	2%
Social expenses	18,563	1%	15,674	1%
Impairment provisions.....	14,384	1%	8,774	1%
Research and development.....	13,123	1%	6,544	0%
Equipment maintenance	12,885	0%	11,564	1%
Insurance expenses.....	10,448	0%	11,800	1%
Other.....	43,472	2%	83,178	7%
Total operating expenses.....	1,363,923	63%	929,561	67%

Purchased oil and gas

Cost of purchased oil and gas increased to RR280,062 million for the year ended December 31, 2006 from RR87,723 million for the year ended December 31, 2005. The increase primarily relates to the increase in gas purchases in central Asia for further reselling to RosUkrEnergo. The consolidation of Gazprom Neft increased the cost of oil and gas purchases by RR66,801 million for the year ended December 31, 2006.

Staff costs

Staff costs (including RR29,087 million and RR21,503 million of expenses associated with pension obligations for the years ended December 31, 2006 and 2005) increased by 19% to RR199,588 million for the year ended December 31, 2006 from RR168,076 million for the year ended December 31, 2005. The increase primarily resulted from the consolidation of Gazprom Neft since October 2005, an increase for expenses associated with pension obligations and the growth of average base salaries.

Taxes other than on income

Taxes other than on income consist of:

	Year ended December 31,	
	2006	2005
	(RR million)	
Natural resources production tax.....	158,480	87,229
Property tax.....	21,825	15,269
Other taxes.....	6,940	11,468
Taxes other than on income.....	187,245	113,966

Natural resources production tax increased by 82% to RR158,480 million for the year ended December 31, 2006 from RR87,229 million for the year ended December 31, 2005 due to the consolidation of Gazprom Neft (by RR59,612 million) and due to the change in tax legislation. From January 1, 2006, the natural resources production tax rate for natural gas increased from RR135 per mcm to RR147 per mcm. The increase in property tax can be explained by the increase of the tax base due to the revaluation of fixed assets for statutory reporting purposes, which we performed as of January 1, 2006.

Depreciation

Depreciation increased by 34% to RR167,446 million for the year ended December 31, 2006 from RR124,783 million for the year ended December 31, 2005. The increase primarily resulted from our growing fixed asset base and the consolidation of Gazprom Neft, which accounted for RR35,413 million of the increase.

Transit of gas, oil and refined products

Transit of gas, oil and refined products increased by 41% to RR156,489 million for the year ended December 31, 2006 from RR110,863 million for the year ended December 31, 2005. The increase is explained by the increase in oil and refined products transit costs by RR34,946 million due to the consolidation of Gazprom Neft and the increase in gas transportation volumes and tariffs.

Repairs and maintenance

Cost of repairs and maintenance increased by 49% to RR82,305 million for the year ended December 31, 2006 from RR55,266 million for the year ended December 31, 2005. The increase was primarily due to an increase in the volume of repairs and maintenance services rendered by third-party providers mainly in the Transport segment.

Materials

Cost of materials increased by 11% to RR81,810 million for the year ended December 31, 2006 from RR73,779 million for the year ended December 31, 2005. The increase was primarily related to increased volumes of purchases by the Transport and Refining segments and higher prices of materials.

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products increased to RR51,041 million for the year ended December 31, 2006 from RR24,540 million for the year ended December 31, 2005. The increase was primarily due to Gazprom Neft consolidation, which represented RR13,706 million of the increase.

Other operating expenses

Other operating expenses decreased by 48% to RR43,472 million for the year ended December 31, 2006 from RR83,178 million for the year ended December 31, 2005. Other operating expenses include bank charges, security services, legal and consulting services and advertising. The change in income from the net trading activity of Gazfund accounted for RR25,456 million of the decrease.

Operating profit

As a result of the factors discussed above, our operating profit increased by RR334,204 million, or 74%, from RR453,984 million for the year ended December 31, 2005 to RR788,188 million for the year ended December 31, 2006. Our operating profit margin increased from 33% for the year ended December 31, 2005 to 37% for the year ended December 31, 2006.

Net finance income (expense)

	Year ended December 31,	
	2006	2005
	(RR million)	
Exchange gain.....	60,497	27,530
Exchange loss.....	(21,449)	(33,724)
Interest income	36,460	25,202
Interest expense.....	(43,771)	(36,202)
Gains on and extinguishment of restructured liabilities.....	966	1,158
Net finance income (expense).....	32,703	(16,036)

Exchange gain increased by 120% to RR60,497 million for the year ended December 31, 2006, compared to RR27,530 million for the year ended December 31, 2005. Exchange loss decreased by 36% to RR21,449 million for the year ended December 31, 2006 from RR33,724 million for the year ended December 31, 2005. The changes reflect the impact of the 8.5% appreciation of the ruble against the U.S. dollar (in which a major part of our borrowings is denominated) and the 1.5% devaluation of the ruble against the euro for the year ended December 31, 2006 compared to the 3.7% depreciation of the ruble against the U.S. dollar and the 9.7% appreciation of the ruble against euro for the year ended December 31, 2005.

Interest income increased by 45% to RR36,460 million for the year ended December 31, 2006 from RR25,202 million for the year ended December 31, 2005 mainly due to an increase in loans issued by Gazprombank and our current bank accounts. Interest expense increased by 21% from RR36,202 million for the year ended December 31, 2005 to RR43,771 million for the year ended December 31, 2006 due to increased borrowings.

Share of net income of associated undertakings and jointly controlled entities

Share of net income of associated undertakings and jointly controlled entities increased by RR14,581 million to RR26,363 million for the year ended December 31, 2006 compared to RR11,782 million for the year ended December 31, 2005. The increase was primarily due to the share in net profit of Slavneft which became an associated undertaking upon the acquisition of Gazprom Neft in 2005.

Profit tax

	Year ended December 31,	
	2006	2005
	(RR million)	
Profit before profit tax.....	856,065	450,115
Theoretical tax charge at a statutory rate (24% for the years ended 31 December 2006 and 2005)	(205,456)	(108,028)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses.....	(22,319)	(33,416)
Other non-taxable income	8,171	7,260
Total profit tax expense	(219,604)	(134,184)

Total profit tax expense increased by RR85,420 million, or 64%, to RR219,604 million for the year ended December 31, 2006 compared to RR134,184 million for the year ended December 31, 2005 primarily due to increased profit before tax.

Our effective profit tax rate for the year ended December 31, 2006 compared to the year ended December 31, 2005 decreased from 29.8% to 25.7%.

Profit for the period attributable to equity holders of Gazprom

As a result of the factors discussed above, our profit for the period attributable to equity holders of Gazprom increased by RR302,220 million, or 97%, from RR311,125 million for the year ended December 31, 2005 to RR613,345 million for the year ended December 31, 2006.

Profit for the period attributable to minority interest

Profit for the period attributable to minority interest increased by 381% to RR23,116 million for the year ended December 31, 2006 compared to RR4,806 million for the year ended December 31, 2005. The increase was primarily due to the earnings of Gazprom Neft, as a result of the acquisition of the 75.68% interest in Gazprom Neft in October 2005.

Liquidity and Capital Resources

We make significant capital expenditures to explore for natural gas and crude oil, to develop our natural gas and crude oil fields and to produce natural gas, gas condensate and crude oil and their products, and to maintain and expand the UGSS and international pipelines. Our capital expenditures (excluding the effect of acquisitions of subsidiaries and reclassifications) were RR576,885 million in 2007, RR485,640 million in 2006 and RR352,620 million in 2005.

For the years ended December 31, 2007 and 2006, our operating cash flows were sufficient to cover our cash capital expenditures. For the year ended December 31, 2005, our operating cash flows were insufficient to cover our cash capital expenditures. Other significant uses of our cash flows include servicing our debt and paying dividends. Interest paid and expensed was RR74,152 million, RR38,668 million and RR30,953 million in 2007, 2006 and 2005, respectively. Interest paid and capitalized was RR19,661 million, RR17,275 million and RR15,189 million in 2007, 2006 and 2005, respectively. Total interest paid, both expensed and capitalized, was RR93,813 million, RR55,943 million and RR46,142 million for 2007, 2006 and 2005, respectively. We paid dividends (including dividends paid by subsidiaries to minority shareholders) of RR69,329 million, RR33,898 million and RR38,550 million in 2007, 2006 and 2005, respectively.

In each of the years ended December 31, 2007, 2006 and 2005 our proceeds from debt exceeded our repayments. Our borrowings net of repayments (including bonds and promissory notes) were RR435,146 million, RR152,944 million and RR283,032 million for 2007, 2006 and 2005, respectively. Our total debt (include long-term borrowings, short-term borrowings, short-term promissory notes payable, long-term promissory notes payable and restructured tax liabilities) increased from RR955,285 million as of December 31, 2005 to RR1,510,666 million as of December 31, 2007. Our cash and cash equivalents and certain restricted cash (i.e., cash balances restricted under certain borrowings) increased from RR157,820 million as of December 31, 2005 to RR282,083 million as of December 31, 2007.

In October 2005, we acquired a 72.66% interest in Gazprom Neft, which increased our total interest in Gazprom Neft to 75.68%, for U.S.\$13.1 billion. We financed this transaction through additional borrowings of U.S.\$13.1 billion received from a syndicate of banks, which consisted of U.S.\$8.1 billion in long-term facilities and U.S.\$5.0 billion in facilities with a stated maturity of three years plus one day, but for which the lenders have the right to recall any amounts borrowed for repayment six months after drawdown. As of June 30, 2008, we have repaid U.S.\$12.0 billion of the amount that we borrowed in order to finance the acquisition of Gazprom Neft.

In April 2007, we completed our previously announced acquisition of a 50% plus one share interest in Sakhalin Energy, the operator of the Sakhalin II project, for which we paid U.S.\$7.45 billion. See "Gazprom—Reserves and Production—projects and alliances in reserves and production—Sakhalin II." We account for Sakhalin Energy as our associated undertaking because the shareholder agreements provide us with significant influence rather than control.

In May 2007, following an additional share issue by Mosenergo, we increased our interest in the new share capital of Mosenergo to a controlling interest of 50.95% for cash consideration of RR66,163 million. In the second half of 2007 we increased our share in Mosenergo to 53.47%.

Cash flows

The following table summarizes our statements of cash flows for the years ended December 31, 2007, 2006 and 2005:

	Year ended December 31,		
	2007	2006	2005
		(RR million)	
Net cash provided by operating activities	598,508	544,088	272,617
Net cash used for investing activities	(892,241)	(512,251)	(653,410)
Net cash provided by financing activities.....	309,706	94,414	422,706

Net cash provided by operating activities

Net cash provided by operating activities amounted to RR598,508 million in the year ended December 31, 2007 compared to RR544,088 million in the year ended December 31, 2006. This was primarily due to a smaller increase in accounts receivable and prepayments in 2007 as compared to 2006.

Net cash provided by operating activities amounted to RR544,088 million for the year ended December 31, 2006 compared to RR272,617 million for the year ended December 31, 2005. This was primarily due to higher sales and operating profit, which rose mainly due to the upward trend in gas prices and was partially offset by an increase in operating expenses and profit tax.

Net cash used for investing activities

Net cash used for investing activities amounted to RR892,241 million in the year ended December 31, 2007 compared to RR512,251 million in the year ended December 31, 2006. The increase was primarily due to the acquisition of an interest in Sakhalin Energy and Tomskneft and higher capital expenditures on field development and gas transportation infrastructure.

Net cash used for investing activities amounted to RR512,251 million for the year ended December 31, 2006 compared to RR653,410 million for the year ended December 31, 2005. This decrease was primarily due to the acquisition of interest in Gazprom Neft in 2005, which was offset by a significant increase in cash capital expenditures in field development and transportation infrastructure and cash investments in Novatek shares in 2006. See “–Capital expenditures.”

Net cash provided by financing activities

Net cash provided by financing activities amounted to RR309,706 million in the year ended December 31, 2007 compared to net cash provided by financing activities in the amount of RR94,414 million in the the year ended December 31, 2006. This change was primarily due to increase in proceeds from new short-term and long-term borrowings received in the year ended December 31, 2007.

Net cash provided by financing activities amounted to RR94,414 million for the year ended December 31, 2006 compared to RR422,706 million for the year ended December 31, 2005. This change was primarily due to the fact, that in 2005 we obtained the loan from Dresdner Bank AG, to finance the purchase of Gazprom Neft and higher net repayments of borrowings in 2006, compared to 2005.

Working capital

Our working capital surplus (which we define as current assets less current liabilities) was RR481,863 million as of December 31, 2007 and RR622,235 million as of December 31, 2006. The RR140,372 million decrease in our working capital in the year ended December 31, 2007 was primarily due to increases in short-term borrowings and the current portion of long-term borrowings, accounts payable and accrued charges, accounts receivables and prepayments, inventories, cash and cash equivalents, and because of a decrease in short-term promissory notes payable. The increase of accounts receivables and prepayments amounted to RR35,424 million. The increase in accounts payable and accrued charges amounted to RR87,340 million. The increase in short-term borrowings and the current portion of long-term borrowings by RR213,365 million is related to funds used for the acquisition of Mosenergo and a 50% plus one share interest in Sakhalin Energy. Short-term promissory notes decreased by RR81,404 million, mainly due to the consolidation of Mosenergo, which held promissory notes in Gazprombank. Inventories increased by RR37,947 million, primarily due to the increase in gas in storage. We believe that we have sufficient working capital to meet our

requirements for at least the next twelve months; however, we are dependent on the short-term credit markets to finance our working capital.

Our working capital surplus was RR622,235 million as of December 31, 2006 and RR474,984 million as of December 31, 2005. The RR147,251 million increase in our working capital as of December 31, 2006 as compared to December 31, 2005 was primarily due to increases in accounts receivable and prepayments, cash and cash equivalents, inventories and decrease in taxes payable. The increase was partially offset by the increase in accounts payable, short-term borrowings and promissory notes payable. Accounts receivable increased by RR267,381 million, primarily due to the growth in both prices and volumes of natural gas sales to Far Abroad countries and an increase in Gazprombank's operating activities. Cash and cash equivalents increased by RR122,358 million. Inventories increased by RR38,338 million, primarily due to the increase in gas in storage. Taxes payable decreased due to the decrease in deferred VAT, caused by change in VAT legislation since January 1, 2006. The increase in accounts payable, promissory notes payable and short-term borrowings was caused by the increase in Gazprombank's operating activities and an increase in the current portion of long-term borrowings.

Capital expenditures

Total capital expenditures (excluding the effect of acquisitions of subsidiaries and reclassifications) by segment for the years ended December 31, 2007, 2006 and 2005 in nominal RR terms, amounted to the following:

	Year ended December 31,					
	2007		2006		2005	
	(RR million)	%	(RR million)	%	(RR million)	%
Transport	197,849	34%	242,305	50%	184,496	52%
Production of natural gas	185,722	32%	130,751	27%	100,316	28%
Production of crude oil and gas condensate	66,237	11%	56,261	12%	17,348	5%
Distribution	39,088	7%	22,546	4%	19,042	6%
Refining	38,671	7%	20,646	4%	16,379	5%
Other ⁽¹⁾	49,318	9%	13,131	3%	15,039	4%
Total	576,885	100%	485,640	100%	352,620	100%

Note:

(1) Primarily includes expenditures for construction and acquisition of non-production assets.

Total capital expenditures (excluding the effect of acquisitions of subsidiaries and reclassifications) increased by RR91,245 million, or 19%, from RR485,640 million in the year ended December 31, 2006 to RR576,885 million in the year ended December 31, 2007. The decrease of our capital expenditures in the Transport segment was primarily due to the fact that a comparatively large amount of capital expenditures on the construction of trunk pipeline SRTO-Torzhok were invested in 2006. The increase of our capital expenditures in the Production of natural gas segment was primarily due to increased capital expenditure on the construction of new wells and associated gas preparation units at the Bovanenkovskoye, Kharasaveiskoye, Kharvutinskoye and Yuzhno-Russkoye fields. The increase in our capital expenditures in the Other segment was mainly caused by capital expenditures of OAO Mosenergo in the second half of 2007. Total capital expenditures (excluding the effect of acquisitions of subsidiaries and reclassifications) increased by RR133,020 million, or 38%, from RR352,620 million for the year ended December 31, 2005 to RR485,640 million for the year ended December 31, 2006. The increase of our capital expenditures in the Transport segment was primarily due to increased capital expenditure on the construction of major transportation projects, including the SRTO-Torzhok pipeline, the Gryazovets-Vyborg pipeline and the Arkhangelsk-Severodvinsk gas pipeline. Capital expenditures in the Production of crude oil and gas condensate segment have increased following the consolidation of Gazprom Neft.

The following table shows our cash and non-cash capital expenditures (excluding the effect of acquisitions of subsidiaries and reclassifications):

	Year ended December 31,		
	2007	2006	2005
		(RR million)	
Cash capital expenditures	543,420	441,001	274,376
Interest paid and capitalized.....	19,661	17,275	15,189
Mutual cancellations and barter settlements	60,210	39,907	68,626
Other ⁽¹⁾	(46,405)	(12,543)	(5,571)
Total capital expenditures⁽²⁾	576,885	485,640	352,620

Notes:

- (1) Includes changes in settlements related to capital construction and changes in promissory notes related to capital construction.
(2) Data presented in this table includes all of our consolidated subsidiaries for the relevant periods. Our budgeted capital expenditures for 2008 described below exclude expenditures by certain subsidiaries, including Purgaz, Sibur Holding, Mosenergo, Stimul, Vostokgazprom, OAO Zapsibgazprom (“Zapsibgazprom”) and Gazprom Neft.

Our adjusted budgeted total capital expenditures by segment for the year ending December 31, 2008 are as follows (excluding expenditures for certain of our subsidiaries, namely Purgaz, Sibur Holding, Mosenergo, Stimul, Vostokgazprom, Zapsibgazprom and Gazprom Neft):

	Year ending December 31,	
	2008 ⁽¹⁾⁽²⁾	
	(RR million)	%
Transport	237,242	45%
Production of gas.....	234,632	44%
Distribution.....	28,222	5%
Production of crude oil and gas condensate	13,183	2%
Refining.....	4,122	1%
Other	13,800	3%
Total.....	531,201	100%

Notes:

- (1) This capital expenditure budget for 2008 includes the following major projects: RR53,745 million to develop the Bovanenkovskoye and Kharasaveyskoye fields, RR26,158 million for construction of the system of the Bovanenkovo-Uhta pipelines, RR21,856 million for construction of the Gryazovets-Vyborg pipeline, RR24,382 million for construction of the Pochinky-Gryazovets pipeline and RR25,000 million for Obskaya-Bovanenkovo railroad construction. The Board of Directors approved this capital expenditure budget on July 23, 2008.
(2) Includes VAT.

Debt obligations

Our borrowings net of repayments (including bonds and promissory notes) were RR435,146 million, RR152,944 million and RR283,032 million, for the years ended December 31, 2007, 2006 and 2005, respectively. Our total borrowings increased from RR954,157 million as of December 31, 2005 to RR1,510,488 million as of December 31, 2007.

Our long-term borrowings (excluding the current portion of long-term borrowings but including long-term promissory notes payable), which are predominantly denominated in convertible currencies (mainly the U.S. dollar and the euro), increased from RR752,488 million at December 31, 2005 to RR984,963 million as of December 31, 2007. Our short-term borrowings (including the current portion of long-term borrowings and short-term promissory notes payable) increased from RR201,669 million as of December 31, 2005 to RR525,525 million as of December 31, 2007. The following table shows our borrowings as of December 31, 2007, 2006 and 2005:

	As of December 31,		
	2007	2006	2005
	(RR million)		
Long-term borrowings			
Fixed interest rate borrowings.....	869,194	563,142	472,979
Weighted average interest rates for fixed rate borrowings.....	6.10%	6.88%	7.46%
Variable interest rate borrowings.....	386,357	242,855	351,751
Weighted average interest rates for variable rate borrowings.....	6.34%	6.60%	5.27%
Total long-term borrowings	1,255,551	805,997	824,730
RR denominated borrowings	165,146	60,753	36,959
Foreign currency denominated borrowings.....	1,090,405	745,244	787,771
Total long-term borrowings	1,255,551	805,997	824,730
Less: current portion of long-term borrowings.....	(274,143)	(137,654)	(82,881)
Add: long-term promissory notes, net of discount.....	3,555	17,186	10,639
Average discount on promissory notes	7.62%	8.03%	7.93%
Total long-term debt obligations	984,963	685,529	752,488
Short-term debt borrowings			
Fixed interest rate borrowings.....	189,122	140,606	81,658
Weighted average interest rates for fixed rate borrowings.....	6.33%	6.07%	4.83%
Variable interest rate borrowings.....	40,805	12,445	16,420
Weighted average interest rates for variable rate borrowings.....	6.59%	8.34%	4.47%
Total short-term borrowings	229,927	153,051	98,078
RR denominated borrowings	129,331	101,314	50,759
Foreign currency denominated borrowings.....	100,596	51,737	47,319
Total short-term borrowings	229,927	153,051	98,078
Plus: Current portion of long-term borrowings.....	274,143	137,654	82,881
Short-term promissory notes, net of discount.....	21,455	102,859	20,710
Average discount on promissory notes	6.44%	7.90%	7.75%
Total short-term debt obligations	525,525	393,564	201,669
Total borrowings	1,510,488	1,079,093	954,157

The following table shows our actual foreign currency denominated long-term borrowings as of December 31, 2007, 2006 and 2005:

	As of December 31,		
	2007	2006	2005
U.S. dollar denominated (expressed in millions of U.S. dollars)	31,912	19,395	23,411
Euro denominated (expressed in millions of U.S. dollars) ⁽¹⁾	12,482	8,181	5,142
Other currencies denominated (expressed in millions of U.S. dollars).....	28	727	—
Total long-term convertible-currency-denominated borrowings expressed in millions of U.S. dollars	44,423	28,303	28,553
Total long-term convertible-currency-denominated borrowings expressed in millions of RR⁽²⁾	1,090,405	745,244	787,771

Notes:

(1) Converted at the euro to U.S. dollar exchange rate of 1.46, 1.32 and 1.19 as of December 31, 2007, 2006 and 2005, respectively.

(2) Converted at the exchange rate as of period-end.

A portion of our long-term borrowings denominated in convertible currencies is collateralized by receivables under certain of our export contracts. As of December 31, 2007, 2006 and 2005, borrowings of RR28,645 million, RR33,901 million and RR98,886 million, respectively, inclusive of current portion of long-term borrowings, were secured by revenues from export supplies of gas to Western Europe. We have not increased our borrowings secured by revenues from export supplies of natural gas to Western Europe since December 31, 2007.

The following table shows our schedule of repayments for long-term borrowings (excluding long-term promissory notes) as of December 31, 2007, 2006 and 2005:

	As of December 31,		
	2007	2006	2005
		(RR million)	
Between one and two years	188,171	111,280	153,165
Between two and five years	277,673	242,230	360,505
After five years	515,564	314,833	228,179
Total	981,408	668,343	741,849

As discussed under “–Certain Acquisitions and Dispositions,” in October 2005, we acquired a 72.66% interest in Gazprom Neft, which increased our total interest in Gazprom Neft to 75.68%, for U.S.\$13.1 billion. We financed this transaction through additional borrowings of U.S.\$13.1 billion, which consisted of U.S.\$8.1 billion in long-term facilities and U.S.\$5.0 billion in facilities with a stated maturity of three years plus one day, but for which the lenders have the right to recall any amounts borrowed for repayment six months after drawdown. As of June 30, 2008, we have repaid U.S.\$12.0 billion of the amount that we borrowed in order to finance the acquisition of Gazprom Neft.

In July 2005, Gazstream issued Eurobonds, the proceeds of which were used to make loans to us of U.S.\$400 million due in 2012 at an interest rate of 5.065% per annum and of U.S.\$283.2 million due in 2010 at an interest rate of 5.625% per annum. The proceeds of these loans were used to refinance existing secured loans that we had obtained in connection with the financing of the Blue Stream project. Gazstream also provided U.S.\$1,185.3 million of loans to Blue Stream Pipeline Company (“BSPC”) to refinance a portion of its existing obligations. We continue to guarantee these obligations of BSPC.

In January 2008, we received a loan from ABN AMRO for the acquisition of OGC-6 shares in the amount of U.S.\$900 million at LIBOR + 2.0%, due in July 2008.

In January 2008, we received a term loan from Credit Suisse International in the amount of U.S.\$1,635 million due in 2018 at 5.25% interest rate to refinance loan received in September 2007.

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

In April 2008, the Issuer issued U.S.\$400 million Loan Participation Notes due in 2013 at an interest rate of 7.343% and U.S.\$1,100 million Loan Participation Notes due in 2018 at an interest rate of 8.146% in each case, to fund loans to Gazprom under the U.S.\$30,000 million Programme for the Issuance of Loan Participation Notes.

Contractual obligations and other commitments

The amount of outstanding guarantees issued to third parties increased by RR43,375 million to RR94,240 million as of December 31, 2007 as compared to December 31, 2006, primarily as a result of the provision of guarantees by Gazprombank to former owners of OAO Salavatnefteorgsintez shares on behalf of ZAO Lider in the amount of RR16,525 million and to Sberbank on behalf of Sibneftegaz in the amount of RR5,934 million. In August 2007, OAO Gazprombank provided a guarantee to OAO LUKOIL-Nizhegorodnefteorgsintez on behalf of OAO Lukoil-NORSI-Invest in the amount of RR5,308 million. Also, we issued guarantees to Wintershall Vermögens-Verwaltungsgesellschaft mbH on behalf of ZAO Achimgaz in the amount of RR4,591 million and to The National Oil Corporation of Libya under a production sharing agreement on behalf of Gazprom Libya B.V. in the amount of RR4,467 million. These increases were partially offset by the decrease in outstanding amounts of existing guarantees issued on behalf of Investment Technologies and BSPC of RR6,005 million and RR5,798 million, respectively.

The amount of outstanding guarantees issued to third parties increased by RR4,756 million to RR50,865 million as of December 31, 2006 as compared to December 31, 2005, primarily as a result of the provision of guarantees to Lascor Limited on behalf of ZAO Investment Technologies in the amount of RR6,005 million and to Gazkom in the amount of RR4,662 million, which was partially

offset by the decrease in the outstanding amounts of existing guarantees issued on behalf of BSPC by RR5,766 million.

In April 2007, we completed our previously announced acquisition of a 50% plus one share interest in Sakhalin Energy, the operator of the Sakhalin II project, for which we paid U.S.\$7.45 billion. See “Gazprom—Reserves and Production—projects and alliances in reserves and production—Sakhalin II.” We account for Sakhalin Energy as an associated undertaking because its shareholder agreements provide us with significant influence rather than control.

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

Qualitative and Quantitative Disclosures and Market Risks

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

Foreign currency risk

Our principal exchange rate risk involves changes in the value of the ruble relative to the U.S. dollar and euro. As of December 31, 2007, approximately RR876,590 million and RR313,025 million of our borrowings were denominated in U.S. dollars and euro, respectively (out of RR1,485,478 million of our total borrowings, excluding promissory notes, at that date). Decreases in the value of the ruble relative to the U.S. dollar or euro will increase our foreign currency denominated costs and expenses and our debt service obligations for foreign currency denominated borrowings in ruble terms. A depreciation of the ruble relative to the U.S. dollar or euro will also result in an increase in the value of our foreign currency borrowings in ruble terms. We believe that the risks associated with our foreign currency exposure are mitigated by the fact that a significant portion of our revenues, approximately 68% for the year ended December 31, 2007, are U.S. dollar or euro denominated. As of December 31, 2007, the ruble had appreciated against the U.S. dollar by approximately 6.8% and had depreciated 3.6% against the euro since January 1, 2007.

A hypothetical, instantaneous and unfavorable 10% change (appreciation of the foreign currency in a net foreign currency liability position) in currency exchange rates would have resulted in additional interest expense, including default interest, of approximately RR4,002 million, RR3,817 million and RR3,778 million (nominal) for the years ended December 31, 2007, 2006 and 2005, respectively, reflecting the increased costs in rubles of servicing our foreign currency denominated borrowings held as of December 31, 2007, 2006 and 2005.

A hypothetical, instantaneous and unfavorable 10% change (appreciation of the foreign currency in a net foreign currency liability position) in currency exchange rates as of December 31, 2007, 2006 and 2005 would have resulted in an estimated foreign exchange loss of approximately RR119,100 million, RR74,021 million and RR82,561 million (nominal) on foreign currency denominated borrowings held as of December 31, 2007, 2006 and 2005, respectively.

Such effects would be at least partially offset by increased revenues generated by export contracts denominated in U.S. dollars and euro.

Interest rate risk

We are exposed to interest rate risk in our borrowings that bear interest at floating rates. As of December 31, 2007, 2006 and 2005, respectively, we had approximately RR1,485,478 million, RR959,048 million and RR922,808 million in total borrowings (excluding promissory notes), of which approximately RR1,058,316 million, RR703,748 million and RR554,637 million bore interest at fixed rates and approximately RR427,162 million, RR255,300 million and RR368,171 million bore interest at floating rates determined generally by reference to the London interbank offered rate (“LIBOR”) for U.S. dollar and euro deposits, respectively.

A hypothetical, instantaneous and unfavorable change (increase) of 100 basis points in the interest rate applicable to floating rate financial liabilities held as of December 31, 2007, 2006 and

2005 would have resulted in additional net interest expense of approximately RR3,412 million, RR3,045 million and RR2,824 million (nominal) for the years ended December 31, 2007, 2006 and 2005, respectively. This sensitivity analysis is based on the assumption of an unfavorable 100 basis point movement of the interest rate applicable to each homogeneous category of financial liabilities. A homogeneous category is defined according to the currency in which financial liabilities are denominated and assumes the same interest rate movement within each homogeneous category (e.g., U.S. dollars and euro).

A hypothetical, instantaneous and unfavorable change (decrease) of 100 basis points in the interest rate would have resulted in an increase in the fair value of fixed rate financial liabilities held as of December 31, 2007, 2006 and 2005 of RR40,831 million, RR27,807 million and RR25,937 million, respectively.

Derivatives

For the purpose of reducing currency risk, our banking subsidiaries use a number of derivative instruments. These comprise forward foreign exchange contracts and written foreign currency option contracts. The objective, when using any derivative instrument, is to ensure that the risk to reward profile of any transaction is optimized. Our normal policy is to measure these instruments at their fair value, using the spot rate at the year end as the basis for the fair value measurement with resultant gains or losses being reported within gains less losses arising from dealing in foreign currencies within our consolidated statement of income.

Commodity risk

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

Securities price risk

We are exposed to movements in the prices of marketable securities that we hold in our investment portfolio. Specifically, as of December, 2007, we held RR214,228 million of marketable corporate shares and bonds and RR13,343 million of state and municipal securities. A change in Russia's sovereign credit rating, or an external event that impacts Russian debt and equity prices, could have an impact on the market value of our trading securities.

GAZPROM

Overview

We are one of the world's largest oil and gas companies in terms of reserves, production and market capitalization. We supply a major part of the natural gas consumed in Russia and a significant portion of the natural gas consumed in the FSU countries to which we export our natural gas. According to the statistical survey "2007 Natural Gas Year in Review. CEDIGAZ' First Estimates" (May 2008), for the year ended December 31, 2007, we supplied approximately 26.8% of the natural gas consumed in Europe, making us the largest supplier of natural gas to Europe. For the year ended December 31, 2007, our sales net of excise tax, VAT and customs duties were RR2,390,467 million (U.S.\$97.4 billion) and our operating profit was RR701,788 million (U.S.\$28.6 billion). As of December 31, 2007, we had total assets of RR6,792,556 million (U.S.\$276.7 billion) and total shareholders' equity (excluding minority interest) of RR3,950,789 million (U.S.\$161.0 billion).

Reserves. We estimate our reserves using the Russian reserves system, which differs significantly from the SPE-PRMS Standards, in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. We estimate that we had Russian reserves classification ABC₁ reserves of 29.8 tcm (1,051.9 tcf) of natural gas, 1,212.5 million tons (9.9 bbls) of gas condensate and 1,509.9 million tons (11.1 bbls) of crude oil, for a total of 196,425.4 mmboe, as of December 31, 2007. As of December 31, 2007, approximately 75.4% of our ABC₁ natural gas reserves were concentrated in western Siberia. Most of our reserves outside of western Siberia are located in the Barents Sea and southern Russia.

Independent petroleum engineering consulting firms DeGolyer and MacNaughton and Miller and Lents evaluated our reserves as of December 31, 2007. The evaluations were conducted in accordance with SPE-PRMS Standards and covered approximately 95% of our ABC₁ natural gas reserves, 93% of our ABC₁ gas condensate reserves and 93% of our crude oil reserves. See "—Reserves and Production—Differences between SPE-PRMS Standards and SEC Standards." As of December 31, 2007, our proved reserves according to an evaluation by DeGolyer and MacNaughton (attached as Appendix A hereto) and an evaluation by Miller and Lents (attached as Appendix B) amounted to 18.3 tcm (647.0 tcf) of natural gas, 568.9 million tons (4.7 bbls) of gas condensate and 727.0 million tons (5.3 mmbls) of crude oil, for a total of 117,887.4 mmboe, and our probable reserves amounted to 2.5 tcm (88.4 tcf) of natural gas, 117.2 million tons (1.0 bbls) of gas condensate and 405.5 million tons (3.0 bbls) of crude oil, for a total of 18,656.0 mmboe. We believe that the evaluated fields are likely to contain most of our reserves that would be deemed proved or probable upon a full evaluation of our reserves according to SPE-PRMS Standards.

Exploration and production. As of December 31, 2007, we held 60 exploration licenses (without development rights), 54 combined hydrocarbon exploration, development and production licenses and 140 development and production licenses.

In the year ended December 31, 2007, we produced 548.6 bcm (19,374.4 bcf) of natural gas, 11.3 million tons (92.4 mmbls) of gas condensate and 34.0 million tons (249.2 mmbls) of crude oil, for a total of 3,572.9 mmboe, as compared with 556.0 bcm (19,635.7 bcf) of natural gas, 11.4 million tons (93.3 mmbls) of gas condensate and 34.0 million tons (249.2 mmbls) of crude oil, for a total of 3,617.3 mmboe, in the year ended December 31, 2006.

Our natural gas production represented approximately 84% and 85% of total natural gas production in Russia in 2007 and 2006, respectively. Our production in western Siberia accounted for 93% of our natural gas production in each of 2007 and 2006.

Gas transportation. We own and operate the UGSS, which collects, processes, transports, stores and delivers substantially all the natural gas sold in Russia. The UGSS comprises the world's largest high-pressure trunk pipeline system. As of December 31, 2007, the total length of the system was approximately 158,200 km (not including pipelines for the transportation of gas condensate) and included 218 compressor stations on the pipelines and 25 underground natural gas storage facilities. We control and manage the transportation of gas in the UGSS network from our central dispatch management center, located in Moscow. We transported 706.7 bcm and 717.8 bcm of natural gas in 2007 and 2006, respectively, of which deliveries on behalf of third parties accounted for 120.5 bcm (17.0%) and 115.0 bcm (16.0%) of the natural gas supplied through the UGSS in 2007 and 2006, respectively.

As of June 30, 2008, we held controlling interests in 168, and associated interests of at least 20% in an additional 28, of the more than 330 gas distribution companies in Russia. These gas distribution companies own and operate medium- and low-pressure pipelines that transport gas to end consumers.

Processing, refining and petrochemical production. We refine a large amount of the natural gas, gas condensate, crude oil and oil gas that we produce. As of December 31, 2007, our total annual processing and refining capacity was 52.5 bcm of natural gas, 20.7 bcm of oil gas and 48.1 million tons of unstable gas condensate and crude oil. In 2007, we refined 44.0 bcm of gas and 38.2 million tons of unstable gas condensate and crude oil, as compared with 47.3 bcm of gas and 36.4 million tons of unstable gas condensate and crude oil in 2006, respectively. We also produce a wide range of refined and petrochemical products.

In April 2008, the Board of Directors of Gazprombank approved the sale of a 50% plus one share interest in Sibur Holding, the principal producer of gas and petrochemical products in the Gazprom Group. See “—Refining-Gas and petrochemical production.”

Gas exports. We export our natural gas to Far Abroad through our wholly-owned trading subsidiary, Gazprom Export. Our sales of natural gas to Far Abroad accounted for approximately 29% and 28% of our natural gas sales volume in the years ended December 31, 2007 and 2006, respectively, and 57% and 60% of our natural gas net sales revenues in such years. Our primary export market within the Far Abroad region is Europe. Most of our exports to Europe are transported by pipeline through Ukraine and Belarus.

Domestic natural gas sales. We sell our natural gas domestically primarily through our wholly-owned subsidiary, Mezhrefiongaz, and our regional gas sales companies. Regional gas sales companies contract directly with and collect payments from the end customers, including households. Our sales of natural gas in Russia accounted for approximately 54% and 55% of our natural gas sales volume in the years ended December 31, 2007 and 2006, respectively, and 26% and 25% of our natural gas net sales revenues in such years.

Relationship with the Government. The Russian Federation currently controls more than 50% of our shares. As of May 8, 2008, it held 38.37% of our shares directly and 11.63% indirectly, of which 10.74% were held through Rosneftegaz, a wholly state-owned company, and 0.89% through another state-controlled company, Rosgazifikatsiya. Moreover, our subsidiaries (excluding Gazprombank) held approximately 0.13% of our shares as of May 8, 2008, which they are entitled to vote as owners.

As our controlling shareholder, the Russian Federation has a strong influence over the major decisions made at our shareholder meetings and, as the nominating party for a majority of the members of Gazprom’s Board of Directors, is able to determine our strategy, make policy decisions in relation to the main areas of our business (including investments, borrowings, risk management and asset allocation), and supervise the implementation of such decisions. We are also a “natural monopoly” in the transportation of natural gas under the Natural Monopoly Law, which means that the tariffs we charge for gas transportation through our trunk pipelines are subject to regulation by the Government.

Pursuant to the Gas Supply Law, the Government has the right to substitute regulation of gas transportation tariffs related to natural monopoly activity for regulation of both gas prices for end consumers and gas transportation tariffs levied on independent gas suppliers. The Government has exercised this right. As part of the development of the annual federal budget and the three-year social and economic development plan of Russia, the Government establishes a framework for changes in the wholesale gas prices we charge.

As one of the world’s leading vertically integrated energy companies, we play a significant role in Russia’s financial system and economy and are the largest tax payer to the state budget. See “Risk Factors—Risks Relating to Our Business—The Government has exercised, and can be expected to continue to exercise, a strong influence over our operations.”

Strategy

Our strategy is to solidify our position as a leading global energy company by further increasing the reliability of our natural gas supplies and diversifying our activities in the energy sector, both in the domestic and foreign markets.

Key elements of our development strategy

Exploration and production. To pursue the recovery of our hydrocarbon reserves, we have developed a long-term geological exploration program primarily focusing on production regions, the most important of which are the Nadym-Pur-Tazovsky region in western Siberia and the pre-Caspian oil and gas bearing provinces, as well as other promising gas production regions, such as the Yamal Peninsula, the shelf of the Arctic seas (including the Obskaya and Tazovskaya Bays), eastern Siberia and the Far East. In accordance with this program, we plan to maintain a balanced growth in our reserves and production through 2010 and to ensure the enhanced recovery of our gas reserves in the future.

In addition, in June 2007, we signed an agreement with BP and TNK-BP pursuant to which TNK—BP is expected to sell to us a 62.9% interest in RUSIA Petroleum, the holder of the license for the Kovykta field. We expect to consummate the transaction in the second half of 2008. See “—Reserves and Production-Projects and alliances in reserves and production—BP and TNK—BP.”

Our development strategy includes prioritizing our investments in those gas production fields that we believe will provide the most efficient and integrated development of gas production, transportation, processing and storage facilities.

After considering general market conditions and the potential of our reserve base, we plan to provide for an annual production (including production in Eastern Russia) of 570 bcm of natural gas by 2010, 610-615 bcm by 2015 and 650-670 bcm by 2020 in order to meet anticipated demand in Russia and abroad. These production targets are subject to adjustment in case of changes in general market conditions in Russia and abroad and the expected energy needs of the Russian economy. Our production is expected to be carried out both in traditional gas production areas, primarily in the Nadym-Pur-Tazovsky region, and in new oil-and gas-bearing areas, such as the Yamal Peninsula, the shelf of the Arctic seas, eastern Siberia and the Far East.

For example, through 2010, we plan to provide for scheduled gas production volumes by commissioning additional facilities at our existing fields and new fields in the Nadym-Pur-Tazovsky region (the Lower Cretaceous deposits of the Zapolyarnoye field and the Pestsovoye field, the Achimovsk formations of the Urengoiskoye field, the Aptian and Lower Cretaceous deposits of the Nydinsk area of the Medvegye field, the Cenomanian deposits of the Zapadno-Pestsovoye field, and achieving projected capacities of the Kharvutinskaya area of the Yamburgskoye field and the Yuzhno-Russkoye field), which can be more efficiently developed due to their close proximity to existing infrastructure facilities. After 2010, we intend to develop new strategic fields in the Yamal Peninsula, the shelf of the Barents Sea, the shelf of the Arctic seas (including the Obskaya and Tazovskaya Bays), the Far East and eastern Siberia. The development of these fields, in particular those in the Yamal Peninsula and the shelf of the Barents Sea, will require significant investment in the near-term because of their distance from existing gas transportation facilities, the complexity of well construction in such areas and difficulties in the implementation of new technologies, including those for environmental preservation in severe weather conditions.

We also intend to expand our reserves outside of Russia and obtain licenses for exploration and development of hydrocarbon reserves in various international regions. Currently, the Group conducts business in Vietnam, India, Venezuela, Libya, Uzbekistan, Kyrgyzstan and Tajikistan. We are also negotiating to participate in projects in other central Asian, Middle Eastern and African countries.

To continue our transformation into a global energy company and a leader in the global energy market, we are striving to consolidate our position in the oil industry, further diversify our sources of income and decrease our financial dependency on gas exports. Our acquisition of Gazprom Neft in 2005 doubled our oil reserves and tripled our liquid hydrocarbon production capacity. In April 2007, we entered into agreements with Eni and Enel to have the right to acquire a further 20% interest in Gazprom Neft. We anticipate that Gazprom Neft will remain a vertically integrated company, including oil production, refining and marketing assets, and will become the platform for further development of our oil business. We intend to increase our oil production to 90-100 million tons per year by 2020. We plan to achieve this target gradually by putting on stream Gazprom Neft's fields and fields owned by Slavneft and Tomskneft, in each of which Gazprom Neft owns a 50% interest, and by expanding the development of other liquid hydrocarbon reserves of our natural gas production subsidiaries and by acquiring new licenses in Russia and abroad.

Gas transportation. To ensure reliable transportation of the growing volumes of gas from our production sites to the domestic market and to satisfy our contractual export obligations, we are developing new transportation facilities. In determining which gas fields to develop first, we take into

account the efficiency of gas supplies. This is primarily determined by the cost of arranging for a particular field's connection to the UGSS, which is a very capital intensive process. We also take into account the expected timing for achieving efficient utilization and optimal productivity of the existing gas transportation system. Our most significant current gas transportation projects in Russia are the construction of the SRTO-Torzhok pipeline, the Gryazovets-Vyborg pipeline and the extension of the gas transportation system in the Urengoi region. Our other projects currently being implemented include the Kasimovskoye PKhG-Voskresensk pipeline and the Pochinki-Gryazovets pipeline. We expect our next significant projects to be the construction of the Bovanenkovo-Ukhta and the Ukhta-Torzhok trunk gas pipeline system to transport gas from the fields on the Yamal Peninsula and the construction of the Murmansk-Volkhov pipeline to transport gas from the Shtokmanovskoye field to the North-Western region of Russia. These projects are not expected to be operational until after 2010. To diversify our export flows, we are preparing to construct the Nord Stream pipeline directly from Russia to Germany under the Baltic Sea and are considering constructing the South Stream pipeline from Russia to Bulgaria under the Black Sea.

One of our long-term goals is the creation of a gas transportation pipeline network in eastern Russia. The Government authorized us to coordinate the Eastern Program, which among other initiatives provides for the creation of a gas transportation system in eastern Siberia and the Far East with the potential export of gas to markets in China and other Asian-Pacific countries. We are currently participating in the construction of the Sakhalin-Khabarovsk-Vladivostok gas pipeline and are also considering participating in the development of other gas transportation projects in eastern Siberia and the Far East.

We perform regular diagnostics, capital repairs and scheduled maintenance of the gas transportation system that are intended to enhance gas supply reliability and gas flow efficiency. As a result, over the last few years we have decreased the instances of technical failures in our gas transportation system. Currently, we believe our maintenance activities are sufficient to maintain optimal operation of our gas transportation system; however, in the near future we expect to significantly increase the level of our capital repairs as a result of the aging of extensive sections of gas pipelines that were put into operation in the 1980s and the early 1990s.

Refining. We intend to increase our production of refined products, the extraction of valuable components from our gas, the depth of our feedstock processing and our refining throughput. We plan to develop our gas refining and petrochemical activities primarily at our existing refining and processing facilities. In furtherance of these goals, it is expected that Gazprom Pererabotka will implement projects and manage our gas refining and petrochemical facility assets, Mezhtregiongaz will coordinate our nitrogen fertilizer assets and Vostokgazprom will supervise methanol production. In addition, we plan to develop gas, petrochemical and processing projects with respect to hydrocarbon production in eastern Siberia and the Far East.

It is intended that Gazprom Neft will lead the development of our crude oil processing segment. We estimate that we will process 70-80 million tons of crude oil by 2020. We intend to achieve this level of production by expanding our crude oil processing facilities in Russia and entering into the European processing market.

Marketing and sales. We develop our pipeline gas marketing strategy based on the characteristics of our different markets.

Our strategy in the Russian domestic market consists of ensuring a continuous gas supply to our domestic customers while improving our profitability. Our main objective in our strategy to develop the domestic market is to achieve a transition from the regulation of our wholesale gas prices to the regulation of gas transportation tariffs through trunk pipelines for all gas suppliers. We propose: (i) maintaining state-regulated prices for supplies of gas to households; (ii) expanding wholesale gas sales through e-commerce and exchange trades; and (iii) forming a market sector for prices to be established between contracting parties and set out in long-term contracts, based on a transparent price formula. We anticipate the wholesale gas market to be dominated by the state regulated sector until 2011. After 2011, this sector is expected to decline, being maintained primarily for supplies of gas to households, and the market sector for contract prices is expected to become the largest in terms of the volume of gas supply. In accordance with a Government decision, domestic gas prices should gradually rise to a level sufficient to assure that domestic gas deliveries are equally as profitable as foreign gas deliveries, taking into consideration transportation costs and custom duties. Simultaneously with establishing market prices, the regulated transport tariff is expected to be used for transportation through trunk pipelines operated by natural monopolies. The regulated

transport tariff is also expected to be imposed on transportation through gas distribution networks. This is designed to ensure reliable deliveries of gas to different categories of end-users, promote optimal pricing proportions between gas and alternative fuels and stimulate effective gas usage by energy-saving. In the framework of the above described strategy, the Government has relaxed state regulation of the gas industry by allowing contract prices within certain minimum and maximum levels. This change affects gas users and gas deliveries to existing users exceeding the volumes set forth in the contracts for 2007.

Our key objectives in the European market are to maintain our market-leading position, provide for reliable gas supply, and increase the efficiency of our marketing activities by gaining access to end-users. We plan to achieve these objectives by developing relationships with traditional customers on a long-term contractual basis and using new forms of trade based on short-term and medium-term sales, as well as gas exchange, spot and one-time transactions. To consolidate our position in the European natural gas market and improve the reliability and flexibility of our gas supply, we intend to expand the use of underground gas storage facilities in Europe and increase our ownership in companies engaged in the sale of gas and electricity to end-users.

The key objective of our marketing strategy in the FSU countries is to ensure that Russian gas will continue to maintain its dominant position in the energy sector of the former Soviet republics, while adjusting the pricing and other terms with respect to sales to FSU customers to terms that are similar to those we currently have with our European customers. Our aim is to gradually achieve economically reasonable price levels in the FSU countries and to increase levels of access to end-users through privatized energy facilities, a strategy we expect will minimize our gas delivery transit risks.

In order to ensure flexibility in determining which fields in the new gas production regions in Russia to develop, we seek to cooperate with central Asian countries in developing gas reserves as well as upgrading and modernizing gas transportation systems. We expect that central Asian gas resources will open new possibilities in expanding the markets for our products as well as maintain reliable supplies to traditional consumers.

We anticipate expanding our positions in markets in the Asian and Pacific regions as well as in North America.

In respect of our oil and oil refinery products, we intend to implement a marketing strategy providing for balanced utilization of our oil production and oil refining capacities as well as export capacities to sell our crude oil and oil refinery products. Our strategic goal of increasing our processing facilities corresponds to our plans to expand our distribution network by between 5,000 to 5,500 gasoline stations by 2020 with total annual sales of 12 million tons. We intend to achieve this goal by expanding our gasoline stations network in Russia and central Asian countries and by acquiring gasoline station networks in Europe, which is expected to follow the planned increase of our European processing assets.

Electricity. We consider electricity to be a new strategically important area for the development of our business. We believe that we can improve the stability of our business and achieve additional revenue by increasing our share of the power generation sector. Our strategic goal in this sector is to diversify tariff risks, optimize the balance of fuel in Russia and realize synergies with our gas business. In implementing our electricity strategy in Russia, we plan to increase the proportion of technologically advanced coal generation and improve gas generation efficiency. We believe that such strategy will meet the increasing energy demands of Russia.

The power industry reform in Russia has enabled investors to participate in the acquisition of electricity generating capacities. As part of this reform, the power generation assets of RAO UES, the former natural monopoly for electric power supply and major producer of electric power in Russia, were spun off into TGKs, OGKs and other companies. TGKs primarily operate combined heat and power plants, which generate both electric and thermal power, and are situated throughout Russia on a one-per-region basis. OGKs generally operate power plants, specializing mainly in the generation of electric power in different regions of Russia.

During 2007, we acquired control over Mosenergo, one of the recently established TGKs. Mosenergo is the largest TGK in terms of total capacity, and is situated in the central region of Russia which has a high level of gasification. We plan to acquire interests in other generating companies established during the restructuring of RAO UES. See “—Electricity”.

We also plan to participate in investment projects for the construction of power plants in Russia and abroad, including the construction of power plants and power stations at UGSS facility sites.

We are considering investing in the construction of, and in acquiring, European electricity power assets to increase our efficiency and improve our position in the European electricity markets. We are also increasing our cooperation with utility companies that have a pre-existing client base and technology that we believe will expand our presence in the international electricity market.

Diversification of products and activities. To continue our development as a global energy company, we are integrating new products and activities with our traditional pipeline gas supplies.

One of our foreign trade priorities is the gradual implementation of the production and maritime transportation of LNG. Since late 2005, in the first stage of the development of our LNG business, we have performed occasional LNG spot trading transactions and swap transactions, exchanging our pipeline gas for LNG. We plan to increase the volumes of our LNG short-term trading and develop medium-term swap transactions in Europe.

In order to expedite entering the LNG market, we are also considering participating in existing third-party LNG projects. In April 2007, we acquired a 50% plus one share interest in the Sakhalin II project. See “Reserves and production—Projects and alliances in reserves and Production—Sakhalin II.”

In the later stages of our LNG strategy, we plan to establish our own LNG production in Russia and abroad and to create our own LNG marketing facilities. We expect that the Shtokmanovskoye field, with its production capacity of up to 95 bcm per year, will ensure sources of natural gas for LNG production as well as for gas deliveries through the Nord Stream pipeline. We anticipate targeting countries of the Asian-Pacific region, the U.S. and Europe as our primary markets for sales of LNG.

We are also expanding our business activities in natural gas refining. In particular, we are considering opportunities to produce SLFs using GTL technology. The development of an SLF industry would allow us to further diversify our businesses by producing high quality motor fuels and oil refinery products for sale to export markets, create a modern low cost transportation system from remote gas fields, and use low-pressure gas resources in processing and refining.

Corporate Governance

At the 2002 annual General Meeting of Shareholders, Gazprom’s shareholders approved a corporate governance charter that sets forth procedures for the protection of the rights of Gazprom’s shareholders. In addition, on September 27, 2002 Gazprom’s Board of Directors adopted a resolution whereby all transactions, whether with interested parties or not, involving: (i) interests or participations that Gazprom or its subsidiaries hold in other companies; (ii) loans or other borrowings, including guarantees by Gazprom having a value greater than 0.3% of Gazprom’s balance sheet assets determined under Russian accounting principles; and (iii) purchases or disposals by Gazprom of its fixed assets having a value greater than 0.3% of its balance sheet assets determined under Russian accounting principles, require approval by Gazprom’s Board of Directors. Similar documents were adopted by all of Gazprom’s significant joint stock subsidiaries with respect to their activities.

We intend to continue our efforts with respect to increasing transparency through ongoing, timely publication of interim and year-end IFRS financial information, improved levels of disclosure for public market financings and improved relations with our shareholders.

In March 2005, Gazprom’s Board of Directors approved an expenditure management directive that is currently being implemented by Gazprom and its subsidiaries. In connection with this directive, we have developed standards and procedures for regulating the accumulation and utilization of the Group’s resources. We have also developed a methodology of cost computation based on recognizing expenses where incurred and by segregating indirect expenses by type of activity and resource, which has been implemented by our subsidiaries beginning in 2007.

Since 2005, a Valuation Committee and an Audit Committee have been established in Gazprom. The Valuation Committee prepares opinions on the efficiency of property transactions. The Audit Committee evaluates potential auditors, the efficiency of internal control procedures and the auditor’s opinion for the annual General Meeting of Shareholders. The members of the Valuation Committee and the Audit Committee are appointed annually by the Board of Directors.

In July 2006, Gazprom’s Board of Directors approved the following strategic performance indicators for 2017:

- focus on growing economic profit;

- maintain a minimum 6% return on capital;
- achieve a debt-to-equity ratio of no more than 40%;
- annual production of no less than 550 bcm of natural gas (in production areas located within the UGSS zone);
- annual sales of no less than 490 bcm of natural gas;
- maintain a minimum natural gas reserves volume of 29 tcm; and
- the maintenance of a reserves replacement ratio of no less than 100%.

In 2007, we limited our natural gas production to 548.6 bcm because of the decline in natural gas consumption caused by the abnormally warm winter of 2006-2007.

We intend to implement a liability insurance program for our board of directors and management committee members. The incurrence of expenses for liability insurance was approved at our general meeting of shareholders in June 2008. We expect that our board of directors will consider approval of the liability insurance agreement in the second half of 2008.

History and Privatization

Prior to 1991, the Russian gas industry was controlled by the Ministry of the Gas Industry of the USSR. The state-owned gas concern Gazprom, formed in 1989 pursuant to the Decree of the Council of Ministers of the USSR No. 619 of August 8, 1989, was the successor to the Ministry of the Gas Industry. This state-owned concern was transformed into a joint stock company in accordance with the Decree of the President of the Russian Federation No. 1333 of November 5, 1992 (“Decree No. 1333”) and Order No. 138 of the Council of Ministers of the Russian Federation dated February 17, 1993 (“Order No. 138”). Decree No. 1333 made us responsible for ensuring efficient operation of the UGSS. Decree No. 1333 and the Decree of the President of the Russian Federation No. 2116 of December 6, 1993 made us responsible for natural gas exports through Gazexport (now renamed Gazprom Export), our wholly-owned foreign trade subsidiary.

Gazprom’s functions as owner of the UGSS and the procedure of providing access to the UGSS are now regulated in accordance with the Gas Supply Law.

The Council of Ministers of the Russian Federation approved Gazprom’s original Charter in Order No. 138, and Gazprom was registered as an open joint stock company under the laws of the Russian Federation on February 25, 1993. In 1993 and 1994, the Government granted us licenses pursuant to the Subsoil Resources Law to exploit hydrocarbon reserves.

Decree No. 1333 provided for the transfer to Gazprom of 100% of the share capital of federally-owned enterprises (comprising the UGSS) and of controlling equity stakes (not less than 51%) in a number of other entities that had been reorganized into joint stock companies, the interests of State Gas Concern “Gazprom” in Russian and foreign enterprises, and other assets of State Gas Concern “Gazprom,” the privatization of which was not restricted. Decree No. 1333 also provided for all rights and obligations of State Gas Concern “Gazprom” to inure to Gazprom’s benefit, including its rights to use underground deposits and natural resources, as well as its rights and obligations under contracts.

Decree No. 1333, along with Directive No. 58-rp of the President of the Russian Federation dated January 26, 1993, our privatization plan and certain other legislative acts issued by the President and the Government, provided for 40.0% of Gazprom’s shares to be fixed in federal ownership.

In December 1998, 2.5% of Gazprom’s shares owned by the state were sold through a privatization auction. Between June 23 and July 1, 2005, we sold 10.74% of Gazprom’s shares, which were held by certain of our subsidiaries, to Rosneftgaz, a wholly state-owned company, for total consideration of RR203,501.7 million (U.S.\$8.3 billion). As a result of this transaction, the Russian Federation controls more than 50% of Gazprom’s shares. In December 2005, the State Duma amended the Gas Supply Law to require that at least 50% plus one share of Gazprom, as the UGSS owner, must be retained in federal ownership for an indefinite period of time and may only be disposed of pursuant to federal law. All other restrictions on foreign ownership of Gazprom’s shares and restrictions on the trading of Gazprom’s shares on Russian stock exchanges previously imposed by the Gas Supply Law have been removed. See “Shareholding Structure of Gazprom.”

Corporate Structure

We operate through a number of direct and indirect wholly- or majority-owned subsidiaries. In addition, we hold direct and indirect equity interests in a number of other entities. Our subsidiaries include entities involved in production, processing, refining and marketing of natural gas, gas condensate, crude oil and electricity, and subsidiaries responsible for a number of other activities, including technical supervision of our pipeline systems, well drilling, research and development, telecommunications, data processing, banking and procurement.

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

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

We allocate expenditures and capital investments in accordance with a three-year financial plan which is reviewed and approved by Gazprom’s Board of Directors each year. Gazprom’s investment program is approved annually by Gazprom’s Board of Directors and may be updated in light of our financial situation and strategic priorities. The investment program is divided into two main sections: capital investments and long-term financial investments. We generally make long-term financial investments with a view to acquire shareholdings in other companies and to participate in joint projects with third parties. Capital investments made pursuant to the investment program (such as the creation and acquisition of certain fixed assets) are made by Gazprom and are then subsequently leased to certain of our subsidiaries, especially those engaged in the operation of the UGSS. The capital investment program adopted by our head office, however, does not cover capital investments made by certain of our subsidiaries that we acquired after our privatization, such as Sibur Holding and Gazprom Neft. Generally, these subsidiaries establish their own capital investment plans.

Gazprom’s investment program, approved by the Board of Directors in July 2008, provides for total investments in 2008 of RR821.7 billion, including capital expenditures of RR531.2 billion and long-term financial investments of RR290.5 billion. The main investments are expected to be allocated for implementation of projects in our gas transportation segment (RR237.2 billion) and gas production segment (RR234.6 billion). Current key projects in gas production are planned to include the construction of facilities in the Kharvutinskaya area of the Yamburgskoye field, construction of facilities in the Bovanenkovskoye and Kharasaveiskoye fields, development of the Yuzhno-Russkoye field and development of the Shtokmanovskoye and Prirazomnoye fields. We also expect to continue our construction at the Yen-Yakhinskoye, Urengoiszkoye, Zapolyarnoye and other fields. Our key projects in gas transportation are planned to include the construction of the SRTO-Torzhek gas pipeline, the Gryazovets-Vyborg pipeline, the Bovanenkovo-Ukhta pipeline, the expansion of the gas transportation system in the Urengoi region, the construction of gas pipeline branches and gas distribution stations and the reconstruction of our gas transportation system.

Gazprom’s investment program for 2008 also provides for the financing of field development projects abroad, including projects in Vietnam and in India. In addition, our long-term financial investment program provides for financial investments in the development of the Shtokmanovskoye field and long-term loans to our subsidiaries for operations at the Yuzhno-Russkoye field, in the Krasnoyarsk Territory and on the Caspian Sea shelf.

Gazprom’s investment program forecasts for 2009 and 2010 provide for total investments of RR739.4 billion and RR968.9 billion, respectively. Capital investments for 2009 and 2010 are expected to be RR668.6 billion and RR849.6 billion, respectively, and long-term financial investments for 2009 and 2010 are expected to be RR55.8 billion and RR104.3 billion, respectively.

Gazprom Neft’s investments are expected to be RR92.5 billion in 2008, of which RR74.4 billion are expected to be allocated for exploration and production, RR6.6 billion for oil refining, RR6.0 billion for the marketing of oil refined products, and RR5.5 billion for the implementation of a program for the utilization and refining of associated gas. In 2009 and 2010, Gazprom Neft’s investments are expected to be RR183.4 billion in the aggregate.

Sibur Holding's investments are expected to be RR40.9 billion in 2008, of which RR36.8 billion are expected to be allocated for the refining of hydrocarbons, RR1.1 billion for implementing energy projects, RR1.9 billion for transportation of raw materials and refined products, and RR1.1 billion for research and development.

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

Exploration and production of natural gas, crude oil and gas condensate. We operate our production through our production subsidiaries, which develop and operate our hydrocarbon fields. See "—Reserves and Production—Production activities." Natural gas and gas condensate production is carried out mainly by our wholly-owned subsidiaries, which became part of the Gazprom Group after the privatization of Gazprom. Our subsidiary Gazprom Neft produces the majority of the Gazprom Group's crude oil. Hydrocarbon production is also performed by such companies as Vostokgazprom, Purgaz, Stimul and Purgazdobycha, all of which we acquired after the privatization of Gazprom. Well-drilling operations are carried out by our subsidiaries OOO Burgaz, OAO Podzemburgaz, OOO Gazflot, the drilling departments of some of our subsidiaries and third-party contractors. In addition, we participate in a number of exploration and production projects and joint ventures with Russian and foreign partners. See "—Reserves and Production—Projects and alliances in reserves and production."

Transportation. We have a total of 17 wholly-owned subsidiaries that engage in gas transportation, some of which previously also processed and stored natural gas. As a result of the reorganization of our corporate management structure, which is currently in progress, our gas transportation subsidiaries transferred their gas processing and storage activities to specialized subsidiaries Gazprom Pererabotka and OOO Gazprom PKhG. We also own interests in gas distribution companies, which own and operate distribution networks that transport gas to end consumers. In addition, we participate in natural gas transportation activities through a number of joint ventures with foreign partners. See "—Gas transportation—International projects and alliances for gas transportation."

Refining and petrochemical production. As part of the reorganization of our corporate structure, which is currently in progress, our natural gas and gas condensate refining activities are substantially concentrated in our 100% subsidiaries Gazprom Pererabotka, OOO Gazprom Dobycha Astrakhan ("Gazprom Dobycha Astrakhan") and OOO Gazprom Dobycha Orenburg ("Gazprom Dobycha Orenburg"). Gazprom Neft refines crude oil at the Omsk Refinery, which it owns, as well as at the Moscow Refinery and at refineries owned by subsidiaries of Slavneft in proportion to its interest therein. In addition to the primary processing of hydrocarbons, Sibur Holding, a Company consolidated on our financial statements as of December 31, 2007, is a producer of a broad range of petrochemical refined products. In April 2008, we approved the sale of a 50% plus one share interest in Sibur Holding. See "—Refining—Gas and petrochemical production."

Marketing. Currently, we export our natural gas and a portion of our oil and gas refined products through our wholly-owned trading subsidiaries, Gazprom Export and Gazprom Neft Trading. We also export a significant portion of natural gas to the FSU directly through Gazprom. We sell natural gas domestically, primarily through our wholly-owned subsidiary Mezhregiongaz. We sell other products on the domestic market primarily through Gazprom and Sibur Holding. Gazprom Neft sells its products in Russia and abroad through its own marketing and trading subsidiaries. In addition, we participate in a number of marketing joint ventures involving foreign partners. See "—Marketing—International projects and alliances in marketing."

Electricity. Currently, we own a 10.5% interest in UES, a controlling stake in Mosenergo, the dominant provider of electricity and heat in the Moscow region, and other equity interests in certain generating companies in Russia.

Other. We are engaged in various non-core activities that support our business. These activities include technical supervision of the pipeline system, construction activities supporting the operation of the UGSS, research and development and non-core production activities. We own 41.73% of the share capital of Gazprombank, one of Russia's largest banks as measured by total assets and capital. Gazprombank services a majority of our banking needs (except for borrowings). We also own or control various other businesses that are not related to our core operations. These include Gazprom-

Media Holding, a holding company that owns various media production and distribution channels, other media companies and various other agricultural, civil, construction, medical care, insurance and telecommunications activities. In accordance with our asset policy, we have been divesting certain of our non-core assets in recent years and expect to continue this process in the future. See “—Other Activities—Non-core businesses.”

We have been implementing an internal restructuring to improve our performance as a vertically integrated company and to optimize our subsidiaries’ core business management structures. In furtherance of these objectives, we have begun transforming our subsidiaries which are involved in multiple sectors of the gas business, such as natural gas production, processing, transportation and underground storage, into subsidiaries focused on one of these sectors. We expect these structural changes to differentiate financial flows in our gas and liquid hydrocarbon production, transportation, processing and underground storage activities. In the first half of 2007, we separated certain divisions of our gas production and gas distribution subsidiaries into new wholly-owned specialized subsidiaries. In 2007 and 2008, certain of these subsidiaries were merged together by business segment into our wholly-owned subsidiaries OOO Gazprom PKhG (underground storage), Gazprom Pererabotka (gas and liquid hydrocarbon refining), OOO Gazprom Severpodzemremont (well maintenance), and OOO Gazprom Yugpodzemremont (well maintenance). In 2007, we also established OOO “Gazprom Invest Zapad” and OOO “Gazprom Invest Vostok,” which are specialized subsidiaries formed for implementing investment projects. In the future, we intend to complete the consolidation of our telecommunications and information technologies services activities in specialized subsidiaries, and to separate some of our other activities. We are currently renaming our major production and transportation subsidiaries in order to include “Gazprom” as part of each company’s name, which we believe will promote a consistent brand. We expect to complete this process in 2008.

The legal name of our parent company is OAO Gazprom. Gazprom’s registered address is 16 Nametkina Street, 117884 Moscow, Russian Federation, and its telephone number is +7 495 719 3001. Gazprom is an open joint stock company organized under the laws of Russia, initially registered on February 25, 1993. Gazprom was issued certificate 1027700070518 of entry into the Unified State Register of Legal Entities on August 2, 2002 by the Ministry of Taxes and Duties of the Russian Federation.

Reserves and Production

We are the world’s largest producer of natural gas, and of hydrocarbons generally. Our major reserves and production areas are western Siberia, southern Russia, the South Urals region and northern European Russia.

Reserves categories

We estimate our hydrocarbon reserves in accordance with the Russian reserves system and under SPE–PRMS Standards. The SPE–PRMS Standards were adopted in March 2007 and replaced the SPE International Standards used since 1997. The Russian reserves system differs significantly from SPE–PRMS Standards, in particular with respect to the manner in which and extent to which commercial factors are taken into account in calculating reserves.

Russian reserves system

The Russian reserves system is based on an analysis of the geological attributes of reserves and takes into account the actual presence of, and the probability of, the presence of hydrocarbons in the applicable geological formations. Explored reserves are represented by categories A, B and C₁, preliminary estimated reserves are represented by category C₂, potential resources are represented by category C₃, and forecasted resources are represented by categories D₁ and D₂.

In accordance with the Russian reserves system, natural gas reserves in categories A, B and C₁ are considered to be fully extractable. For reserves of crude oil and gas condensate, a predicted coefficient of extraction is calculated based on geological and technical factors. We have included in this Base Prospectus only information about our explored reserves, or reserves in categories A, B and C₁, unless otherwise specified.

For a description of A, B, C₁ and C₂ reserves and C₃, D₁ and D₂ resources, see “Overview of the Russian Gas Industry and Certain Regulatory Matters—Classification of Reserves.”

SPE–PRMS standards

While the Russian reserves system focuses on the actual physical presence of hydrocarbons in geological formations, and reserves are estimated based on the probability of such physical presence,

SPE-PRMS Standards take into account not only the probability that hydrocarbons are physically present in a given geological formation but also the economic viability of recovering the reserves (including such factors as exploration and drilling costs, ongoing production costs, transportation costs, taxes, prevailing prices for the products, and other factors that influence the economic viability of a given deposit).

Under SPE-PRMS Standards, reserves are classified as “proved,” “probable” and “possible.” We have included in this Base Prospectus information about our proved and probable reserves based on the evaluations by DeGolyer and MacNaughton and Miller and Lents, independent petroleum engineering consulting companies, as of December 31, 2007, 2006 and 2005.

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

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

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

Differences between SPE-PRMS Standards and SEC Standards

SPE-PRMS Standards differ in certain material respects from SEC Standards. The principal differences include the following:

Certainty of existence. Under SPE-PRMS Standards, reserves in undeveloped drilling sites that are located more than one well location from a commercial producing well may be classified as proved reserves if there is “reasonable certainty” that they exist. Under SEC Standards, it must be “demonstrated with certainty” that reserves exist before they may be classified as proved reserves. In their evaluations of our proved reserves, as at December 31, 2005, DeGolyer and MacNaughton applied the stricter SEC Standards with respect to certainty of existence.

Duration of license. Under SPE-PRMS Standards, proved reserves are projected for the period of the efficient development of the evaluated fields. Under SEC Standards, crude oil and gas deposits may not be classified as proved reserves if they will be recovered after the expiration of a current license period unless the license holder has the right to renew the license and there is a demonstrated history of license renewal. The Subsoil Resources Law provides that a license holder may receive an extension of an existing license in the event that extractable reserves remain in the subsoil after the expiration of the primary term of the license, provided that the license holder is in material compliance with the license agreement. We prepare and submit for government approval development plans for our fields based on the economic life of the field, even where this life exceeds the primary term of the associated license. We believe we are currently in material compliance with our license agreements, and that we will be entitled to extend them to the full economic lives of the associated fields upon the expiration of their primary terms. However, the absence of an absolute legal right to an extension and lack of historical support prevents us from concluding that the extractable reserves in our fields for periods past the expiration of the primary terms of these licenses could be considered proved under SEC Standards. We have not reviewed our fact pattern with the SEC and therefore do not have definitive guidance on whether in our circumstances such extractable reserves could be considered proved under SEC Standards.

Accordingly, information relating to our estimated proved natural gas, gas condensate and crude oil reserves under SPE-PRMS Standards is not necessarily indicative of information that would be reported under SEC Standards. In addition, SEC Standards do not permit the presentation of reserves other than proved reserves.

These differences could potentially cause the amount of estimated proved natural gas, gas condensate and crude oil reserves reported by us in future periods under SEC Standards to be lower than would otherwise be reported under SPE-PRMS Standards. An eventual decrease in the amount of natural gas, gas condensate and crude oil reserves reported by us could, if material, affect certain financial data reported by us in our consolidated financial statements in future periods.

Our reserves

Our total ABC₁ natural gas reserves represent approximately 60% of the total ABC₁ natural gas reserves in Russia. Most of our reserves are concentrated in the very large Yamburgskoye, Bovanenkovskoye, Urengoiyskoye, Zapolyarnoye, Shtokmanovskoye, Astrakhanskoye, Kharasaveiskoye, Yuzhno-Russkoye and Orenburgskoye fields, each with ABC₁ natural gas reserves of more than 500 bcm. Approximately half of our ABC₁ natural gas reserves are in Cenomanian deposits, which are characterized by low bedding depth, high delivery rates of wells and dry natural gas.

The following table shows our total ABC₁ natural gas, gas condensate and crude oil reserves in Russia as of the dates indicated:

Total reserves	As of December 31,		
	2007	2006	2005
Natural gas (bcm).....	29,786.0	29,854.0	29,131.0
Gas condensate (million tons).....	1,212.5	1,217.0	1,216.3
(mmbbls).....	9,918.3	9,955.1	9,949.3
Crude oil (million tons).....	1,509.9	1,386.9	1,357.5
(mmbbls).....	11,067.6	10,166.0	9,950.5
Total (mmbbls).....	196,425.4	195,961.1	191,481.4

Independent petroleum engineering consulting firms, DeGolyer and MacNaughton and Miller and Lents, evaluated our reserves as of December 31, 2007. See Appendix A and Appendix B. The evaluations were conducted in accordance with SPE-PRMS Standards and covered approximately 95% of our ABC₁ natural gas reserves, 93% of our ABC₁ gas condensate reserves and 93% of our crude oil reserves. The correlation between A, B and C₁ reserves and proved and probable reserves may differ in the fields that have not yet been evaluated. Moreover, the correlation may vary at different times for the same fields.

The following table shows our ABC₁ and SPE-PRMS Standards proved and probable natural gas, gas condensate and crude oil reserves in the areas evaluated by DeGolyer and MacNaughton as of December 31, 2007, 2006 and 2005, excluding Gazprom Neft.

	As of December 31, 2007				As of December 31, 2006				As of December 31, 2005			
	Russian Reserves		SPE-PRMS Standards		Russian Reserves		SPE-PRMS Standards		Russian Reserves		SPE-PRMS Standards	
	ABC ₁ ⁽²⁾	Proved ⁽²⁾	Probable ⁽²⁾	Combined Proved and Probable ⁽²⁾⁽³⁾	ABC ₁ ⁽²⁾	Proved ⁽²⁾	Probable ⁽²⁾	Combined Proved and Probable ⁽²⁾⁽³⁾	ABC ₁ ⁽²⁾	Proved ⁽²⁾	Probable ⁽²⁾	Combined Proved and Probable ⁽²⁾⁽³⁾
Natural Gas (tcm)....	28.3	18.3	2.5	20.8	27.8	18.2	2.6	20.8	27.6	16.0	4.7	20.7
Gas Condensate (million tons).....	1,092.0	568.9	117.2	686.1	1,096.3	528.9	130.1	659.0	1,094.3	507.9	184.7	692.6
(mmbbls) ⁽⁴⁾	8,932.6	4,653.6	958.7	5,612.3	8,967.7	4,326.4	1,064.2	5,390.6	8,951.4	4,154.6	1,510.8	5,665.5
Crude oil (million tons).....	591.8	76.9	210.0	286.9	585.4	87.1	203.8	290.9	565.0	67.3	232.2	299.5
(mmbbls) ⁽⁴⁾	4,337.9	563.7	1,539.3	2,103.0	4,291.0	638.4	1,493.9	2,132.3	4,141.5	493.3	1,702.0	2,195.3
Total (mmbbls)⁽⁴⁾.....	179,957.5	113,004.3	17,223.0	130,227.3	177,000.7	112,162.8	17,872.1	130,034.9	175,656.8	98,887.9	30,895.9	129,783.8

Notes:

- (1) In the evaluation of our proved reserves as of December 31, 2005, DeGolyer and MacNaughton applied certain provisions of the SEC Standards. See “—Differences between SPE-PRMS Standards and SEC Standards.”
- (2) Includes 100% of the reserves of the Gubkinskoye field. Purgaz, our 51% subsidiary, holds the license for the Gubkinskoye field.
- (3) Totals may not sum due to rounding.
- (4) Amounts in barrels differ from those provided in the letter from DeGolyer and MacNaughton attached as Appendix A because in this Base Prospectus we use a conversion rate from metric tons of crude oil to barrels of one ton = 7.33 barrels, a conversion rate from one thousand cubic meters of natural gas to barrels of oil of one mcm = 5.89 barrels, and a conversion rate from metric tons of gas condensate to barrels of gas condensate of one ton = 8.18 barrels. Amounts in barrels provided in the letter from DeGolyer and MacNaughton are calculated based on the specific gravities of each field.

The following table sets out Gazprom Neft's ABC₁ and SPE-PRMS Standards proved and probable natural gas and crude oil reserves in the areas evaluated by Miller and Lents as at December 31, 2007 and 2006 and DeGolyer and MacNaughton as at December 31, 2005.

	As of December 31, 2007				As of December 31, 2006				As of December 31, 2005			
	Russian Reserves		SPE-PRMS Standards		Russian Reserves		SPE-PRMS Standards		Russian Reserves		SPE-PRMS Standards	
	ABC ₁ ⁽²⁾	Proved ⁽²⁾	Probable ⁽²⁾	Combined Proved and Probable ⁽²⁾⁽³⁾	ABC ₁ ⁽²⁾	Proved ⁽²⁾	Probable ⁽²⁾	Combined Proved and Probable ⁽²⁾⁽³⁾	ABC ₁ ⁽²⁾	Proved ⁽²⁾	Probable ⁽²⁾	Combined Proved and Probable ⁽²⁾⁽³⁾
Crude oil (million tons).....	818.9	650.1	195.5	845.6	703.1	601.8	173.8	775.6	699.9	461.5	470.7	932.2
(mmbbls) ⁽³⁾	6,002.5	4,765.2	1,433.0	6,198.2	5,153.7	4,411.2	1,274.0	5,685.1	5,130.3	3,382.8	3,450.2	6,833.0
Natural gas (bcm)....	100.6	20.6	1.8	22.4	94.8	29.5	3.6	33.1	71.3	66.8	81.3	148.1
Total (mmboe)⁽³⁾.....	6,595.1	4,886.6	1,443.6	6,330.2	5,712.1	4,584.9	1,295.2	5,880.1	5,550.2	3,776.2	3,929.1	7,705.3

Notes:

- (1) In the evaluation of our reserves as of December 31, 2005, DeGolyer and MacNaughton applied certain provisions of the SEC Standards. See “—Differences between SPE-PRMS Standards and SEC Standards.”
- (2) Includes proved developed and proved undeveloped reserves.
- (3) Amounts in barrels differ from those provided in the letter from Miller and Lents attached as Appendix B because in this Base Prospectus we use a conversion rate from metric tons of crude oil to barrels of one ton = 7.33 barrels and a conversion rate from one thousand cubic meters of natural gas to barrels of oil of one mcm = 5.89 barrels. Amounts in barrels provided in the letter from Miller and Lents are calculated based on the specific gravities of each field.

The following table sets out our total ABC₁ natural gas, gas condensate and crude oil reserves in Russia as of the dates indicated.

	As of December 31,		
	2007	2006	2005
	ABC ₁	ABC ₁	ABC ₁
Natural gas			
Aggregate reserves			
		(bcm)	
Reserves held through wholly-owned subsidiaries	28,518	29,320	28,529
Reserves held through majority-owned subsidiaries	1,267.4	534	602
Total for the Group ⁽¹⁾	<u>29,785.4</u>	<u>29,854</u>	<u>29,131</u>
Reserves by region			
Western Siberia (Urals federal district) and the Pechora Sea shelf and the Kara Sea shelf	22,456.8	22,806	22,341
Northern European Russia (Northwestern federal district) and the Barents Shelf	3,656.5	3,336	3,030
Southern Russia (Southern federal district)	2,581.8	2,596	2,617
South Urals (Privolzhski federal district)	792.8	811	831
Southwestern Siberia, eastern Siberia and the Far East (Siberian federal district and the Far East federal district)	297.5	305	312
Total for the Group ⁽¹⁾	<u>29,785.4</u>	<u>29,854</u>	<u>29,131</u>
Gas Condensate			
Aggregate reserves			
		(million tons)	
Reserves held through wholly-owned subsidiaries	1,207.9	1,205.6	1,205.1
Reserves held through majority-owned subsidiaries	4.6	11.4	11.2
Total for the Group ⁽¹⁾	<u>1,212.5</u>	<u>1,217.0</u>	<u>1,216.3</u>
		(mmbbls)	
Reserves held through wholly-owned subsidiaries	9,880.6	9,861.8	9,857.7
Reserves held through majority-owned subsidiaries	37.6	93.3	91.6
Total for the Group ⁽¹⁾	<u>9,918.3</u>	<u>9,955.1</u>	<u>9,949.3</u>
		(million tons)	
Reserves by region			
Western Siberia (Urals federal district) and the Pechora Sea shelf and the Kara Sea shelf	692.6	692.6	688.4
Northern European Russia (Northwestern federal district) and the Barents Shelf	50.7	47.3	45.9
Southern Russia (Southern federal district)	389.2	392.4	395.8
South Urals (Privolzhski federal district)	58.0	58.3	59.2
Southwestern Siberia, eastern Siberia and the Far East (Siberian federal district and the Far East federal district)	21.9	26.4	27.0
Total for the Group ⁽¹⁾	<u>1,212.5</u>	<u>1,217.0</u>	<u>1,216.3</u>
		(mmbbls)	
Western Siberia (Urals federal district) and the Pechora Sea shelf and the Kara Sea shelf	5,665.5	5,665.5	5,631.1
Northern European Russia (Northwestern federal district) and the Barents Shelf	414.7	386.9	375.5
Southern Russia (Southern federal district)	3,183.7	3,209.8	3,237.6
South Urals (Privolzhski federal district)	474.4	476.9	484.3
Southwestern Siberia, eastern Siberia and the Far East (Siberian federal district and the Far East federal district)	179.1	216.0	220.9
Total for the Group ⁽¹⁾	<u>9,918.3</u>	<u>9,955.1</u>	<u>9,949.3</u>

	As of December 31,		
	2007	2006	2005
	ABC ₁	ABC ₁	ABC ₁
Crude Oil			
Aggregate Reserves			
		(million tons)	
Reserves held through wholly-owned subsidiaries	586.1	616.4	623.2
Reserves held through majority-owned subsidiaries	923.8	770.5	734.3
Total for the Group ⁽¹⁾	<u>1,509.9</u>	<u>1,386.9</u>	<u>1,357.5</u>
		(mmbbls)	
Reserves held through wholly-owned subsidiaries	4,296.1	4,518.2	4,568.1
Reserves held through majority-owned subsidiaries	6,771.5	5,647.8	5,382.4
Total for the Group ⁽¹⁾	<u>11,067.6</u>	<u>10,166.0</u>	<u>9,950.5</u>
Reserves by region			
		(million tons)	
Western Siberia (Urals federal district) and the Pechora Sea shelf and the Kara Sea shelf	1,262.0	1,146.9	1,152.0
Northern European Russia (Northwestern federal district) and the Barents Shelf	60.6	60.0	49.4
Southern Russia (Southern federal district)	5.4	4.5	3.5
South Urals (Privolzhski federal district)	133.9	134.3	118.6
Southwestern Siberia, eastern Siberia and the Far East (Siberian federal district and the Far East federal district)	48.0	41.2	34.0
Total for the Group ⁽¹⁾	<u>1,509.9</u>	<u>1,386.9</u>	<u>1,357.5</u>
		(mmbbls)	
Western Siberia (Urals federal district) and the Pechora Sea shelf and the Kara Sea shelf	9,250.5	8,406.8	8,444.2
Northern European Russia (Northwestern federal district) and the Barents Shelf	444.2	439.8	362.1
Southern Russia (Southern federal district)	39.6	33.0	25.7
South Urals (Privolzhski federal district)	981.5	984.4	869.3
Southwestern Siberia and eastern Siberia and the Far East (Siberian federal district and the Far East federal district)	351.8	302.0	249.2
Total for the Group ⁽¹⁾	<u>11,067.6</u>	<u>10,166.0</u>	<u>9,950.5</u>

Notes:

(1) Totals may not sum due to rounding.

The following tables set out the proved and probable gas, gas condensate and crude oil reserves as of December 31, 2007 in accordance with SPE-PRMS Standards that are owned by the Group, not including Gazprom Neft, as extracted from the June 5, 2008 DeGolyer and MacNaughton report attached to this Base Prospectus as Appendix A.

Subsidiary	Metric Units		
	Gazprom Group Separator Gas		
	Total Proved (10 ⁶ m ³)	Probable (10 ⁶ m ³)	Proved Plus Probable (10 ⁶ m ³)
OOO Gazprom Dobycha Urengoi	3,201,405	434,125	3,635,530
OOO Gazprom Dobycha Yamburg	4,515,990	525,090	5,041,080
OOO Gazprom Dobycha Nadym	5,030,360	843,080	5,873,440
OOO Gazprom Dobycha Noyabrsk.....	652,070	44,680	696,750
AO Severneftegazprom	713,290	6,370	719,660
ZAO Purgaz.....	233,110	3,940	237,050
OOO Purgazdobycha.....	160,330	3,480	163,810
OOO Gazprom Dobycha Orenburg.....	321,127	57,332	378,459
OOO Gazprom Dobycha Astrakhan	257,540	11,940	269,480
ZAO Sevmorneftegaz.....	2,385,080	587,180	2,972,260
ZAO Stimul	41,232	5,454	46,686
AO Tomskgazprom	36,040	760	36,800
AO Gazprom	718,320	26,290	744,610
Total	18,265,894	2,549,721	20,815,615

Notes:

- (1) Probable reserves have not been adjusted to account for risk.
- (2) Reserves estimates include those reserves attributable to the 49% interest in Purgaz not owned by us.
- (3) Reserves estimates include those reserves attributable to the 0.01% interest in Purgazdobycha not owned by us.

Subsidiary	Metric Units		
	Oil		
	Total Proved (10 ³ mt)	Probable (10 ³ mt)	Proved Plus Probable (10 ³ mt)
OOO Gazprom Dobycha Urengoi	11,618	10,710	22,328
OOO Gazprom Dobycha Yamburg	1,120	18,760	19,880
OOO Gazprom Dobycha Nadym	0	79,870	79,870
OOO Gazprom Dobycha Orenburg.....	24,227	11,211	35,438
ZAO Sevmorneftegaz.....	0	71,170	71,170
ZAO Stimul	39,948	18,287	58,235
Total	76,913	210,008	286,921

Note:

- (1) Probable reserves have not been adjusted to account for risk.

Subsidiary	Metric Units		
	Condensate and Gas Liquids		
	Total Proved (10 ³ mt)	Probable (10 ³ mt)	Proved Plus Probable (10 ³ mt)
OOO Gazprom Dobycha Urengoi	292,485	42,788	335,273
OOO Gazprom Dobycha Yamburg	92,480	32,120	124,600
OOO Gazprom Dobycha Nadym	23,920	30,200	54,120
OOO Gazprom Dobycha Orenburg.....	18,450	3,128	21,578
OOO Gazprom Dobycha Astrakhan	126,750	5,780	132,530
ZAO Sevmorneftegaz.....	12,370	3,100	15,470
AO Tomskgazprom	2,460	40	2,500
Total	568,915	117,156	686,071

Note:

- (1) Probable reserves have not been adjusted to account for risk.

Licenses

As of December 31, 2007, Gazprom and its subsidiaries had 254 licenses for hydrocarbon exploration, development and production. Our exploration, development and production licenses include:

- 60 exploration licenses without development rights (Category NP of the Russian Federation classification);
- 54 combined exploration, development and production licenses (Category NR of the Russian Federation classification); and
- 140 development and production licenses (Category NE of the Russian Federation classification).

The following table sets out our hydrocarbon exploration, development and production licenses as of December 31, 2007.

	Type of License ⁽¹⁾			
	Our Ownership Interest (%)	Development and Production (Category NE)	Exploration, Development and Production (Category NR)	Exploration without Development Rights (Category NP)
Gazprom.....	n/a	4	13 ⁽²⁾	17 ⁽³⁾
OOO Gazprom Dobycha Astrakhan	100.0	1	1	0
OOO Gazprom Transgaz Makhachkala	100.0	0	3	3
OOO Kavkaztransgaz.....	100.0	13	0	3
OOO Kubangazprom	100.0	35	3	1
OOO Gazprom Dobycha Nadym	100.0	7	2	5
OOO Gazprom Dobycha Noyabrsk	100.0	5	2	1
OOO Gazprom Dobycha Orenburg.....	100.0	2	1	10
Purgazdobycha	100.0	0	1	0
Gazprom Pererabotka	100.0	5	0	5
Sevmorneftegaz.....	100.0	2	0	0
Severneftegazprom.....	65.0	1	0	0
Stimul	100.0	1	0	0
OOO Gazprom Transgaz Surgut	100.0	1	1	0
OOO Gazprom Transgaz Yugorsk	100.0	3	0	0
OOO Gazprom Transgaz Ekaterinburg.....	100.0	0	0	1
OOO Gazprom Dobycha Urengoi.....	100.0	4	0	0
Vostokgazprom.....	99.98	0	3	0
OOO Gazprom Dobycha Yamburg.....	100.0	4	1	0
OAO Tomskgazprom	100.0	5	0	0
OAO Serviceneftegaz.....	99.99	1	1	0
OAO Uralneft.....	75.4	0	2	0
OAO Krasnoyarskgazprom.....	75.0	0	0	1
OOO Krasnoyarskgazdobycha.....	100.0	1	2	1
Purgaz.....	51.0	1	0	0
Gazprom UK Ltd. Group.....	100.0	0	2 ⁽⁴⁾	0
OAO Kalmgaz.....	51.0	3	0	0
OOO Geologopromyslovaya Compania Kuznetsk Gazprom Neft ⁽⁵⁾	54.0	0	1	0
	75.7	41	15	12
Total for Gazprom Group	n/a	140	54	60

Notes:

(1) Licenses are categorized by type in accordance with the official indexing established at the time the license is issued. The type of license is assigned in accordance with the official state classification of Russia.

(2) Includes one license for a license area outside of the Russian Federation.

(3) Includes ten licenses for license areas outside of the Russian Federation.

(4) Consists of two licenses for license areas outside of the Russian Federation.

(5) Gazprom Neft holds its most significant licenses through its subsidiaries OAO Gazpromneft-Noyabrskneftegaz (“Noyabrskneftegaz”) and OOO Sibneft-Yugra (“Sibneft-Yugra”). Noyabrskneftegaz holds 30 licenses for oil fields in the Yamal-Nenets and Khanty-Mansiysky autonomous areas, while Sibneft-Yugra holds two licenses in the Khanty-Mansiyski autonomous area. According to SPE-PRMS Standards, these licenses account for approximately 73.2% of Gazprom Neft’s total proved crude oil reserves as at December 31, 2007.

The table below sets out data on main hydrocarbon assets, production licenses for which are held by our subsidiaries and associated companies as of December 31, 2007.

Subsidiaries	Ownership Interest (%)	Name of the field (block)	Type of field (block) ⁽¹⁾	License Expiration Year ⁽²⁾
Gazprom	—	North Purovskoye	gas condensate	2026
		Zapadno-Astrakhanskoye	gas condensate	2024
		Dolginskoye	oil	2025
		Severo-Kamennomysskoye	gas condensate	2026
		Kamennomysskoye-more	gas	2026
		Obskoye	gas	2026
OOO Gazprom Dobycha Astrakhan.	100.0	Astrakhanskoye	gas condensate	2019
OOO Gazprom Dobycha Nadym.....	100.0	Medvezhye	gas condensate	2018
		Yubileinoye	oil-gas condensate	2018
		Yamsovieyskoye	oil-gas condensate	2018
		Kharasaveiskoye	gas condensate	2019
		Bovaenkovskoye	oil-gas condensate	2018
		Novoportovskoye	oil-gas condensate	2019
OOO Gazprom Dobycha Noyabrsk..	100.0	Vyngapurovskoye (Cenomanian)	oil-gas condensate	2012
		Komsomolskoye (Cenomanian)	oil-gas condensate	2012
		Yety-Purovskoye (Cenomanian)	gas oil	2014
		Vyngayakhinskoye (Cenomanian)	gas oil	2019
		Lenskoye	oil	2026
OOO Gazprom Dobycha Orenburg ..	100.0	Orenburgskoye	oil-gas condensate	2018
Purgazdobycha.....	100.0	Zapadno-Tarkosalinskoye	oil-gas condensate	2018
Gazprom Pererabotka	100.0	Vuktylskoe	oil-gas condensate	2016
Severneftegazprom	65.0	Yuzhno-Russkoye	oil-gas condensate	2018
Stimul.....	100.0	Orenburgskoye (eastern section)	oil-gas condensate	2018
OOO Gazprom Dobycha Urengoi	100.0	Urengoiskoye ⁽³⁾	oil-gas condensate	2013
		Severo-Urengoiskoye (Cenomanian)	oil-gas condensate	2013
		Pestsovoye	oil-gas condensate	2019
		Severo-Samburgskoye	oil	2027
OOO Gazprom Dobycha Yamburg ..	100.0	Yamburgskoye	oil-gas condensate	2018
		Zapolarnoye	oil-gas condensate	2018
		Tazovskoye	oil-gas condensate	2025
AOO Tomskgazprom	100.0	Myldzhiskoye	gas condensate	2019
OOO Krasnoyarskgazdobycha	100.0	Sobinskoye	oil-gas condensate	2028
Sevmorneftegaz	100.0	Shtokmanovskoye	gas condensate	2043
		Prirazlomnoye	oil	2018
Purgaz	51.0	Gubkinskoye	oil-gas condensate	2014
Gazprom Neft.....	75.68	Muravlenkovskoye	gas-oil	2013
		Novogodneye	gas-oil	2013
		Priobskoye (southern area)	oil	2013
		Sporyshevskoye	oil	2047
		Sugmutskoye	oil	2050
		Sutorminskoye	oil-gas condensate	2013
		Vyngapurovskoye (Yamalo-Nenetski autonomous region) ⁽⁴⁾	oil-gas condensate	2013
		Vyngapurovskoye (Khanty-Mansiski autonomous region) ⁽⁴⁾	oil-gas condensate	2014
		Vyngayakhinskoye ⁽⁴⁾	gas-oil	2013

Notes:

(1) Type of field is provided in accordance with the Russian state classification.

(2) The subsoil user has the right to request an extension of the term of the license in order to complete the exploration, assessment and development of the natural resources until the end of a field's exploitation period if such user complies with the terms and conditions of the license. See "Overview of the Russian Gas Industry and Certain Regulatory Matters-Russian Regulation - Subsoil licensing." We plan to extend our fixed term licenses up to the time of the completion of economically feasible development of the fields.

(3) Includes the Yen-Yakhinskoe field.

(4) Subsidiaries of Gazprom Neft have been granted licenses for oil-bearing deposits. Our subsidiary, OOO Gazprom Dobycha Noyabrsk ("Gazprom Dobycha Noyabrsk"), holds the licenses for gas bearing deposits in these fields.

In accordance with Russian federal legislation, licenses are issued by the federal subsoil management authority. Most of our hydrocarbon exploration, assessment and production licenses were granted between 1993 and 1996 in accordance with the Subsoil Resources Law and regulatory acts issued in 1992 that govern the licensing and use of subsoil.

A license holder is entitled to extend an existing license where completion of research and development or liquidation is required, provided that the license holder is in material compliance with the license. The licenses impose certain obligations on us to provide employment, develop local infrastructure, pay local and federal taxes and meet certain environmental requirements. Licenses may be suspended or revoked if we fail to comply with their terms. See “Overview of the Russian Gas Industry and Certain Regulatory Matters—Russian Regulation—Subsoil licensing.” We believe we are in substantial compliance with the terms of all of our material subsoil licenses (although minor technical breaches may have occurred such as untimely submission of materials for official evaluation and preparation of development documents).

In accordance with current legislation, we plan to extend our licenses that have a fixed term to the end of the economic life of the field (such as an extension of Gazprom Neft’s Sporyshevskoye and Romanovskoye fields’ licenses through 2047 and 2048, respectively, and the Zapadno-Noyaborskoye, Sugmutsкое and Sredne-Iturskoye fields’ licenses through 2050). Currently, there have been no suspensions of production as a result of decisions by the relevant federal and regional authorities. See “Risk Factors—Risks Relating to Our Business—Our licenses may be suspended, amended or terminated prior to the end of their terms, and we may not be able to obtain or maintain various permits and authorizations.”

None of the licenses for our major natural gas fields expires prior to 2012. We plan to extend these licenses so that they do not expire before the end of the economically efficient development period of each field.

In 2006, in Russia and central Asia, we, including Gazprom Neft, obtained eight licenses for subsoil use as a result of auctions and 20 licenses on a non-tender basis. Of these 28 licenses, eight licenses provide production rights, of which the most significant licenses are for the development of the Kamennomyskoye, the Kamennomyskoye-more and the Obskoye fields in the Tyumen region.

In 2007, we, including Gazprom Neft, obtained 14 licenses for subsoil use as a result of auctions and 12 licenses on a non-tender basis, of which five licenses are for geologic exploration and seven licenses were the result of field discoveries. Of these licenses, the most significant licenses are for the Severo-Samburgskoye field, the Severo-Parusovoye field, the Yuzhno-Parusovoye field and the Vostochno-Medvezhye field.

In the first half of 2008, we, including Gazprom Neft, obtained 14 licenses for subsoil use as a result of auctions, and nine licenses on a non-tender basis, of which seven licenses are for geologic exploration and two licenses are the result of the discoveries of the Chikanskoye field in the Irkutsk region and the Yuzhno-Pestsovskoye field in the Yamal-Nenets autonomous region.

In accordance with the Resolution of the Government of the Russian Federation No. 1707-r dated November 28, 2007, some of the gas fields constituting non-licensed subsoil areas of strategic significance for gas supplies in the Russian Federation were ranked as “areas of federal importance.” These fields are located in the Saha (Yakutia) Republic, the Yamal-Nenets autonomous area and on the shelf of the Kara and Okhotsk seas. Pursuant to the Russian legislation, the Government had the right to transfer the licenses for such fields without holding a tender of such licenses to an entity that is the owner of the UGSS. In April and May 2008, the Government issued resolutions (No. 493-r dated April 16, 2008, No. 650-r dated May 6, 2008 and No. 666-r dated May 6, 2008) granting to Gazprom, as the owner of the UGSS, ten fields of federal importance for development without tender, including the Zapadno-Tambeyskoye, Kruzenshternskoye, Malyginskoye, Severo-Tambeyskoye, Tasiyskoye, Tota-Yakhinskoye and Semakovskoye fields in the Yamal Peninsula, the Kirinskoye field in the shelf of the Okhotsk Sea, the Antipayutinskoye field in the Gydan Peninsula and the Chayadinskoye field in the Sakha (Yakutiya) Republic. In May 2008, amendments to the Subsoil Resources Law became effective restricting the Government’s issuance of new licenses on a non-tender basis.

In March 2008, Gazprom Neft’s subsidiary OOO Gazpromneft-Khantos obtained the right to develop the subsoil of one of the areas of the Zimnee field located in the Khanti-Mansiysky autonomous region.

Exploration activities

We are continually engaged in the exploration for new deposits of natural gas. These activities involve exploratory drilling and geophysical activities in our existing license areas and fields.

In 2007 and 2006, we completed, respectively, 37 and 62 exploration and appraisal wells, of which 25 and 44 yielded discoveries or positive appraisals confirming our estimates of hydrocarbons.

We are currently analyzing the most favorable areas for the development of new deposits on the shelf of the Barents Sea, the shelf of the Arctic seas (including Obstkaya and Tazovskaya Bays), the eastern parts of Nadym-Pur-Taz region, the Yamal and Gydanski peninsulas, Orenburg region, Krasnoyarsk Krai, Irkutsk region, the Yamal-Nenets autonomous area, the Komi Republic and the territory in the pre-Caspian basin. After 2010, we expect that other areas, such as the Kara Sea shelf and the crude oil and gas regions of eastern Siberia and the Far East, may be considered favorable.

We perform our exploration activities in accordance with the Programme for the Development of Reserves Base through 2030 (not including Gazprom Neft) adopted in 2002. This program sets out key areas of our exploration activities and licensing policies. The program provided for the attainment of stabilized parity between our production volume and our exploration reserve additions by 2006 and the maintenance of this level for the next five years. The program also provided for the enhancement of the recovery of our reserve base after 2011.

Our goal, as set out in this program, is to increase our reserves, as estimated by Russian standards, by 23.5 tcm of gas and 3.4 billion tons of gas condensate and crude oil from 2002 through 2030.

During the implementation of the first stage of this program in 2002-2005, we discovered 17 crude oil and gas fields and 24 deposits. During this same period, our hydrocarbon reserves, as estimated by Russian standards, grew as a result of exploration activities by more than 1.8 tcm of gas and 0.2 billion tons of gas condensate and crude oil.

Gazprom Neft also performs geological and exploration work to discover new hydrocarbon fields in unexplored territories and new oil deposits in fields under development.

In 2007, the total increase in our category C₁ reserves that was attributable to geologic exploration work amounted to 592.1 bcm of natural gas and 29.6 million tons of oil and gas condensate, of which Gazprom Neft accounted for 13.9 million tons. Three fields were discovered in the Yamal-Nenets autonomous region in 2007, including two gas condensate fields (the Zapadno-Pestsovoye and Yuzhno-Karasevskoye fields) and one oil field (the Vorgenskoye field).

In 2008, we (not including Gazprom Neft) plan to invest approximately RR59.2 billion in exploration activities. Gazprom Neft plans to invest approximately RR6.2 billion in exploration activities in 2008.

The following table sets out data by geographic region on the exploration wells we completed in the periods indicated.

	For the year ended December 31,		
	2007	2006	2005
Western Siberia (Urals federal district) and the Pechora Sea shelf and the Kara Sea shelf, of which	25	36	28
Successful	20	30	23
Dry	5	6	5
Northern European Russia (Northwestern federal district) and the Barents Shelf, of which	1	4	4
Successful	0	1	3
Dry	1	3	1
Southern Russia (Southern federal district), of which	5	6	6
Successful	3	4	4
Dry	2	2	2
South Urals (Privolzhski federal district), of which	1	6	5
Successful	1	4	3
Dry	0	2	2
Southwestern Siberia and the Far East (Siberian federal district and the Far East federal district), of which	5	8	3
Successful	1	5	3
Dry	4	3	0
Omsk region (Siberian federal district), of which	0	2	0
Successful	0	0	0
Dry	0	2	0
Total, of which	37	62	46
Successful	25	44	36
Dry	12	18	10

We are expanding our exploration activities outside of Russia, including in Venezuela, Vietnam, India, Libya and central Asia. See “—Projects and alliances in reserves and production.”

Production activities

The following table sets out certain data for our production of natural gas segment for the periods indicated.

	For the year ended December 31,		
	2007	2006	2005 ⁽¹⁾
Total natural gas production (bcm)	548.6	556.0	555.0
Depreciation (million RR)	43,404	38,859	36,947
Capital expenditure (million RR)	187,486	114,023	89,505
Total assets (million RR)	1,096,544	938,003	888,256

Note:

(1) Production volumes for 2005 have been recalculated in accordance with our reserves and production calculation methodology consistent with our accounting consolidation principles.

We produce natural gas, gas condensate and crude oil from fields located in various regions of Russia.

Natural gas. In the year ended December 31, 2007, we produced 548.6 bcm of natural gas and accounted for approximately 84% of the natural gas produced in Russia by volume. In the year ended December 31, 2006, we produced 556.0 bcm of natural gas and accounted for approximately 85% of the natural gas produced in Russia by volume. In 2007, we decreased our production because of the warm weather experienced globally during the winter months.

Gas condensate. In the year ended December 31, 2007, we produced 11.3 million tons (92.4 mmbbls) of gas condensate, as compared with 11.4 million tons (93.3 mmbbls) of gas condensate in the year ended December 31, 2006. This slight reduction in gas condensate production in 2007 was caused by the exhaustion of major developed gas condensate fields. We intend to increase our gas condensate production by bringing on stream the Achimovsk formation of the Urengoiskoye field, the Valanginian layer of the Zapolyarnoye and the Pestsovoye fields.

Crude oil. We produced 34.0 million tons of crude oil (249.2 mmbbls) and 34.0 million tons (249.2 mmbbls) of crude oil in the years ended December 31, 2007 and 2006, respectively.

Our main gas production regions are as follows:

Western Siberia. (Urals federal district). This is our main region for the production of natural gas, gas condensate and crude oil. It is characterized by severe weather conditions. Excluding Gazprom Neft's fields, there are 18 active natural gas, gas condensate and crude oil fields in the Nadym-Pur-Taz region of western Siberia. Our wholly-owned production subsidiaries Gazprom Dobycha Nadym, Gazprom Dobycha Urengoi, Gazprom Dobycha Yamburg, Gazprom Dobycha Noyabrsk, Gazprom Transgaz Yugorsk and Purgazdobycha operate in this region, as does Purgaz, of which we own 51%, and Severneftegazprom, of which we own 75% plus one voting share, or a 65% interest in the share capital. Five of our leading fields (in terms of production), Komsomolskoye, Medvezhye, Urengoi, Yamburgskoye and Zapolyarnoye, are located in this region.

Northern European Russia (Northwestern federal district). This region is characterized by severe weather conditions and has four active gas condensate fields. The operating production company for this region is Gazprom Pererabotka, which as a result of a corporate reorganization obtained licenses for subsoil use that were previously held by Severgazprom.

Southern Russia (Southern federal district). This area consists of two regions, the Astrakhan region and the northern Caucasus. The Astrakhan region contains one active gas condensate field, Astrakhanskoye, which is operated by Gazprom Dobycha Astrakhan. Kubangazprom produces natural gas, gas condensate and crude oil at 58 active fields in the northern Caucasus region.

South Urals region (Privolzhski federal district). The main active field, Orenburgskoye, in the South Urals region is operated by Gazprom Dobycha Orenburg, which produces, processes and transports natural gas, gas condensate and crude oil, and Stimul, an oil and gas production company. OOO Serviceneftegas also produces natural gas, crude oil and gas condensate in the region.

East Siberia and the Far East (Siberian and the Far East federal districts). Vostokgazprom, of which we own 99.9%, produces natural gas from two gas fields in this area. Sakhalin Energy, of which we own 50% plus one share, operates the Sakhalin II project out of the Far East.

Gazprom Neft engages in the exploration, development and production of oil and gas reserves principally through fields located in the Yamal-Nenets and Khanti-Mansiysky autonomous area of western Siberia (Urals federal district). In addition, Gazprom Neft is developing one oil field in the Omsk region, three oil fields in the Tomsk region (Siberian federal district) and one natural gas field in the Chukotka autonomous region (Far East federal district).

Beginning in 2006, Gazprom Neft's crude oil production activity has been undertaken by three of its operating subsidiaries, Noyabrskneftegaz, OOO Sibneft-Khantos ("Sibneft-Khantos") and OOO Sibneft-Vostok ("Sibneft-Vostok"). Noyabrskneftegaz, the primary Gazprom Neft production subsidiary, operates more than 30 fields in the Yamal-Nenets and Khanti-Mansiysky autonomous area. Sibneft-Khantos produces crude oil from the Priobskoye, Palyanovskoye and Zimnee fields, which are located in the Khanti-Mansiysky autonomous area and the Tyumen region. Sibneft-Vostok operates fields in the Omsk and Tomsk regions of eastern Siberia.

In addition, Gazprom Neft has several subsidiaries that hold licenses for crude oil and natural gas production and exploration, but do not operate these fields. These subsidiaries are Sibneft-Yugra, Meretoyakhaneftegaz, Zapolyarneft, Archinskoye, Shinginskoye, Kholmogorneftegaz and Sibneft-Chukotka. Sibneft-Yugra, of which Gazprom Neft owns a 99% interest, has production licenses for two fields in western Siberia, including the Priobskoye field, which we expect will increase Gazprom Neft's total production of crude oil in the coming years. Meretoyakhaneftegaz, of which Gazprom Neft owns a 67% interest, owns a license for the Meretoyakhinskoye field in the north of the Noyabrsk region. Zapolyarneft has three large fields located in western Siberia. Kholmogorneftegaz holds licenses for development of one more field in the region. Archinskoye and Shinginskoye hold three licenses for the development of crude oil fields in the Tomsk region located in the Siberian federal district. Sibneft-Chukotka holds a licence for natural gas production from one field in the Chukotka autonomous region.

Slavneft, in which Gazprom Neft and TNK-BP own an equal interest, develops reserves in the Urals federal district and conducts exploration works in the Siberian federal district. Gazprom Neft and TNK-BP have entered into an agreement pursuant to which each party will receive Slavneft's crude oil output in proportion to its interest.

The following table sets out certain production data by region for our subsidiaries for the periods indicated.

	For the year ended December 31,					
	2007		2006		2005 ⁽¹⁾	
	Volume	Percentage of overall production	Volume	Percentage of overall production	Volume	Percentage of overall production
Western Siberia (Urals federal district)						
Natural gas ⁽²⁾ (bcm).....	510.6	93.1	517.9	93.2	516.4	93.0
Gas condensate (thousand tons).....	6,218.3	55.2	6,291.0	55.3	6,380.3	55.5
(mmbbls)	50.9		51.5		52.2	
Crude oil (thousand tons).....	31,737.9	93.4	31,922.7	93.8	8,427.0	88.8
(mmbbls)	232.6		234.0		61.8	
Combined (mmboe)	3,290.9	92.1	3,335.9	92.2	3,155.9	91.9
Northern European Russia						
(Northwestern federal district)						
Natural gas (bcm).....	2.8	0.5	2.7	0.5	2.8	0.5
Gas condensate (thousand tons).....	209.8	1.9	231.4	2.0	249.8	2.2
(mmbbls)	1.7		1.9		2.0	
Crude oil (thousand tons).....	81.1	0.2	71.4	0.2	89.4	0.9
(mmbbls)	0.6		0.5		0.7	
Combined (mmboe)	18.8	0.5	18.3	0.5	19.2	0.6
Southern Russia (Southern federal district)						
Natural gas (bcm).....	13.4	2.4	13.4	2.4	13.5	2.4
Gas condensate (thousand tons).....	4,277.8	37.9	4,255.8	37.4	4,243.2	36.9
(mmbbls)	35.0		34.8		34.7	
Crude oil (thousand tons).....	78.9	0.2	109.9	0.3	123.2	1.3
(mmbbls)	0.6		0.8		0.9	
Combined (mmboe)	114.5	3.2	114.5	3.2	115.1	3.4
South Urals (Privolzhski federal district)						
Natural gas (bcm).....	18.7	3.4	18.6	3.4	18.7	3.4
Gas condensate (thousand tons).....	278.5	2.5	266.6	2.3	269.1	2.3
(mmbbls)	2.3		2.2		2.2	
Crude oil (thousand tons).....	641.9	1.9	596.9	1.8	556.0	5.9
(mmbbls)	4.7		4.4		4.1	
Combined (mmboe)	117.1	3.3	116.2	3.2	116.4	3.4
Southwestern Siberia and the Far East						
(Siberian and Far East federal districts)						
Natural gas ⁽²⁾ (bcm).....	3.2	0.6	3.3	0.6	3.5	0.6
Gas condensate (thousand tons).....	290.0	2.6	326.9	2.9	357.6	3.1
(mmbbls)	2.4		2.7		2.9	
Crude oil (thousand tons).....	1,442.6	4.2	1,316.3	3.9	290.8	3.1
(mmbbls)	10.6		9.6		2.1	
Combined (mmboe)	31.8	0.9	31.7	0.9	25.6	0.8
Total⁽³⁾						
Natural gas ⁽²⁾ (bcm).....	548.6	100	556.0	100	555.0	100
Gas condensate (thousand tons).....	11,274.4	100	11,371.8	100	11,500.0	100
(mmbbls)	92.2		93.0		94.1	
Crude oil (thousand tons).....	33,982.4	100	34,017.2	100	9,486.4	100
(mmbbls)	249.1		249.3		69.5	
Combined (mmboe)	3,572.5	100	3,617.1	100	3,432.6	100

Notes:

(1) Production volumes for 2005 have been recalculated in accordance with our reserves and production calculation methodology consistent with our accounting consolidation principles.

(2) Includes oil gas produced by Gazprom Neft. See “—Gazprom Neft’s crude oil and gas production.”

(3) Totals may not sum due to rounding.

The table below sets out gas production volumes by our main production subsidiaries for the periods indicated.

	For the year ended December 31,		
	2007	2006	2005 ⁽¹⁾
	(bcm)		
Subsidiary (% interest as of December 31, 2007)			
OOO Gazprom Dobycha Urengoi (100%)	140.8	138.9	139.5
OOO Gazprom Dobycha Yamburg (100%)	222.3	230.6	238.4
OOO Gazprom Dobycha Nadym (100%)	61.6	62.8	63.4
OOO Gazprom Dobycha Noyabrsk (100%)	52.3	52.8	43.5
Purgazdobycha (100%)	15.6	15.6	15.9
Purgaz (51%)	15.0	15.0	15.1
OOO Gazprom Dobycha Orenburg (100%)	18.1	18.1	18.3
OOO Gazprom Dobycha Astrakhan (100%)	12.0	11.9	11.9
Other	10.9	10.3	9.0
Total⁽²⁾	548.6	556.0	555.0

Notes:

(1) Production volumes for 2005 have been recalculated in accordance with our reserves and production calculation methodology consistent with our accounting consolidation principles. See “—Major transactions with hydrocarbon assets-Nortgaz.”

(2) Totals may not sum due to rounding.

The table below sets out gas condensate and oil production volumes by our main production subsidiaries for the periods indicated.

	For the year ended December 31,					
	2007		2006		2005 ⁽¹⁾	
	Gas condensate	Oil	Gas condensate	Oil	Gas condensate	Oil
Subsidiaries (% interest as of December 31, 2007)	(thousand tons)					
OOO Gazprom Dobycha Urengoi (100%) .	4,629.3	456.1	4,623.5	479.7	4,689.6	479.3
OOO Gazprom Dobycha Yamburg (100%)	1,516.4	—	1,586.6	—	1,579.4	—
Purgazdobycha (100%)	72.6	29.3	81.0	28.1	111.3	31.1
OOO Gazprom Dobycha Orenburg (100%)	256.8	203.1	261.7	205.2	264.4	209.4
OOO Gazprom Dobycha Astrakhan (100%)	4,181.1	—	4,153.6	—	4,172.5	—
OAO Tomskgazprom (100%)	290.0	29.5	326.9	12.8	357.6	10.3
Stimul (100%)	8.0	436.6	4.9	391.7	4.7	346.6
Kubangazprom (100%)	95.7	78.9	101.4	109.9	69.9	123.2
Severgazprom (100%)	209.8	81.1	231.4	71.4	249.8	89.4
Gazprom Neft (75.68%) ⁽²⁾	—	32,665.6	—	32,716.9	—	8,197.1
OAO Serviceneftgaz (99.0%)	13.8	2.3				
Other	0.9	—	0.8	1.4	0.8	—
Total⁽³⁾	11,274.4	33,982.4	11,371.8	34,017.2	11,500.0	9,486.4

Notes:

(1) Production volumes for 2005 have been recalculated in accordance with our reserves and production calculation methodology consistent with our accounting consolidation principles. Thus, production of our associated company Nortgaz is excluded from our production volumes. See “—Major transactions with hydrocarbon assets—Nortgaz.”

(2) Beginning from October 1, 2005, we have included Gazprom Neft’s production in our overall production data. See “—Major transactions with hydrocarbon assets—Gazprom Neft.”

(3) Totals may not sum due to rounding.

Gazprom Neft's crude oil and gas production

In 2007, Gazprom Neft stabilized its crude oil production. For the year ended December 31, 2007, Gazprom Neft produced 32.7 million tons of crude oil, unchanged from the prior year. OAO Sibneft-Noyabrskneftegaz produced 24.7 million tons of crude oil. OOO Gazpromneft-Khantost became a leader in terms of growth rate among Gazprom Neft's subsidiaries, increasing its production by 48% to 6.6 million tons of crude oil. In 2007 OOO "Gazpromneft-Vostok" produced 1.4 million tons of crude oil. Furthermore, in 2007 Gazprom Neft completed its acquisition of a 50% interest in OAO Tomskneft VNK ("Tomskneft"), a company with an annual production of over 11 million tons of crude oil. Gazprom Neft's business plan for 2008 provides for increased capital investments in exploration and production. Gazprom Neft's total capital investments in crude oil production development are budgeted to reach RR74.4 billion in 2008.

Most of the oil produced by Gazprom Neft is classified as "Siberian Light" crude and has sub-average density (34.20 degrees API or 830-850 kg/cm) and sub-average sulfur content (0.56%) compared to average Russian crude oil. When not blended with other Russian crude oil, crude oil produced by Gazprom Neft might be sold at a premium over the Urals blend. This advantage, however, is generally lost because crude oil produced by Gazprom Neft is blended with crude oil belonging to other Russian companies when transported through the trunk pipeline system owned by OAO AK Transneft ("Transneft").

Gazprom Neft also produces gas in connection with its crude oil production activities, or oil gas, in the Yamal-Nenets and Khanty-Mansiysky autonomous areas. In 2007, Gazprom Neft produced 1.7 bcm of associated oil gas and a minimal volume of natural gas (26.8 mmcm) in Chukotka.

The following table sets out Gazprom Neft's crude oil and gas production with respect to each of its production units for the periods indicated. Beginning on October 1, 2005, we have included Gazprom Neft's production in our overall production data.

	For the year ended December 31, 2007	For the year ended December 31, 2006	For the year ended December 31, 2005	For the three months ended December 31, 2005
<i>Crude oil production⁽¹⁾</i>				
Noyabrskneftegaz (million tons)	19.2	21.4	23.5	5.7
(mmbls)	140.7	156.9	172.3	41.8
Zapolyarneft (million tons).....	4.5	4.5	4.7	1.2
(mmbls)	33.0	33.0	34.5	8.8
Sibneft-Yugra (million tons).....	6.5	4.4	2.8	0.7
(mmbls)	47.6	32.3	20.5	5.1
Other subsidiaries (million tons).....	2.6	2.4	2.1	0.6
(mmbls)	19.1	17.6	15.4	4.4
Total crude oil ⁽²⁾⁽³⁾ (million tons).....	32.7	32.7	33.0	8.2
(mmbls)	239.7	239.7	241.9	60.1
<i>Gas production</i>				
Oil gas (bcm)	1.7	2.04	1.99	0.54
Natural gas (bcm).....	0.03	0.03	0.03	0.01
Total gas ⁽³⁾ (bcm)	1.8	2.07	2.02	0.55

Notes:

(1) For Noyabrskneftegaz, only crude oil production from its own fields is indicated. Crude oil production from Gazprom Neft's Meretoyakhinskoye and Archinskoye fields is included under "Other subsidiaries."

(2) Does not include 50% of the shares in Slavneft's and Tomskneft's production.

(3) Totals may not sum due to rounding.

Gazprom Neft uses its own oil field engineering services, such as geophysical surveys of wells and seismic data analysis, along with engineering services provided by both Russian and international companies. In 1999, Gazprom Neft entered into a strategic alliance with Schlumberger (Eastern) Inc. (“Schlumberger”), a major service provider of oil field engineering services. In cooperation with Schlumberger, Gazprom Neft has engaged in hydrofracturing, horizontal drilling and sidetracking, which has improved Gazprom Neft’s crude oil production technology. Gazprom Neft works with Baker Hughes and Halliburton on projects such as directional drilling, sidetracking, logging and cementing. Gazprom Neft also works with Russian oil and gas service companies, including subsidiaries of Noyabrskneftegaz. While the cost of working with international service providers is often higher than it would be if it worked with Russian companies, Gazprom Neft believes that such costs are offset by the efficiency gains it realizes by utilizing the services rendered by such international companies.

Production costs

Our production costs largely reflect the geological composition of the hydrocarbon deposits under production as well as the cost of operating the infrastructure that is necessary to sustain our production levels.

Current production costs at three of our leading fields, Medvezhye, Urengoiskeye and Yamburgskoye, will likely increase because we expect to be required to use more expensive extraction techniques to compensate for declining pressure in the deposits in order to extract natural gas from deeper, more geologically complex deposits. Production costs at our fields in the Yamal Peninsula are also expected to be high because of challenging climatic conditions in the area. We seek to mitigate these higher costs of production by developing and using new technology.

Development activities

We are engaged in developing new fields for commercial production and aim to achieve annual natural gas production of 570 bcm by 2010, 610-615 bcm by 2015 and 650-670 bcm by 2020 and crude oil production of 90-10 million tons by 2020. These production targets are subject to adjustment in case of changes in general market conditions in Russia and abroad and the expected energy needs of the Russian economy. The development of our fields involves drilling and completing production wells, constructing units that process hydrocarbons for transportation and constructing booster compressor stations to compensate for the loss of pressure in those of our fields with declining production.

The following table sets out data by region on the oil and gas exploitation wells we drilled in the periods indicated.

	Year ended December 31,		
	2007	2006	2005
Western Siberia (Urals federal district)	696	576	298
Northern European Russia (Northwestern federal district)	1	0	0
Southern Russia (Southern federal district)	16	9	15
South Urals (Privolzhski federal district)	13	35	33
Eastern Siberia (Siberian federal district)	0	0	5
Total	726	620	351

The Urengoiskeye, Yamburgskoye and Medvezhye fields in the Nadym-Pur-Taz region of western Siberia have historically accounted for the bulk of our production. Production from these three leading fields has been declining in recent years and will continue to decline in the years ahead as we deplete the natural gas deposits in these fields. See “Risk Factors-Risks Relating to our Business—We must increase our capital expenditures in order to satisfy the anticipated demand of our customers, replace diminishing natural gas and crude oil reserves in our leading fields and maintain and develop our gas transportation system” and “—Production activities.”

Currently, we are planning further development in various regions of Russia, both on our own and in cooperation with other parties. We expect that this development will enable us to sustain and increase our production in order to meet our long-term production targets. We are focusing our development activities in the following regions:

Nadym-Pur-Taz production region

The Nadym-Pur-Taz region in western Siberia has historically accounted for the bulk of our natural gas production. Currently, we are engaged in significant development projects in the Nadym-Pur-Taz region, including:

Zapolyarnoye field. The field is located in western Siberia near our main fields developed in the Nadym-Pur-Taz region. By the end of 2004, Cenomanian deposits that we had brought on stream had reached their projected annual capacity of 100 bcm. Cenomanian deposits are characterized by low bedding depth and high delivery rates of wells and dry natural gas. The projected production capacity for such deposits was revised in 2007 and amounted to 115 bcm for the year. We believe we can achieve this level of production capacity in 2011. We expect that the Valanzhinsk deposits will be brought on stream in 2009 and reach their planned production capacity of 15 bcm by 2011. We have planned to make total capital investments of RR41.5 billion in the field through 2010.

Kharvutinskaya area of the Yamburgskoye field. This area is located in western Siberia in the southern part of the Yamburgskoye field. It was brought on stream in 1996. In November 2007, a primary gas preparation station was put on stream with a production capacity of 8.2 bcm annually. We expect this area to reach its maximum production capacity of 30 bcm by 2010, and we plan to make total capital investments of RR10.3 billion in developing this field from 2008 through 2010.

The lower Cretaceous deposits of the Pestsovoe field. This field is located in western Siberia to the west of the Yen-Yakhinskaya area of the Urengoiyskoye field. The lower Cretaceous deposits of the field are expected to be brought on stream in the pilot development stage in 2011. We anticipate that these layers will produce 2.0 bcm of gas and 1.3 million tons of gas condensate and oil at their maximum annual capacity. Currently, we are preparing a project for the development of this field.

Yen-Yakhinskoye field. This field is located in western Siberia and was brought on stream in December 2003. Beginning in 2010, the field will be developed using gas reinjection technology to ensure maximum gas condensate withdrawal. In 2007, this field achieved its projected production capacity producing 1.8 million tons (14.7 mmbbls) of gas condensate and five bcm of natural gas. We plan further investments of RR9.7 billion in developing this field from 2008 through 2010.

Yuzhno-Russkoye. This field is located in western Siberia. In October 2007, the first start-up complex was brought on stream on Yuzhno-Russkoye field, with projected capacity of 10 bcm of gas per year. It is expected to reach its projected capacity of 25.0 bcm per year in 2009. Our investment in this field for the period from 2008 through 2010 is expected to be approximately RR23.9 billion. In October 2007, we executed an asset swap agreement with BASF, pursuant to which BASF received a 25% minus one share interest in Severneftegazprom, which holds a license for the Yuzhno-Russkoye field, and one preferred issued non-voting share of Severneftegazprom, which amounts to a 10% interest in the economics of the project. See “—Projects and alliances in reserves and production—BASF/Wintershall.” In July 2006, we entered into a framework asset swap agreement with E.ON, pursuant to which we are now negotiating an eventual swap of certain assets in Europe in exchange for a 25% minus one share interest of Severneftegazprom. See “—Projects and alliances in reserves and production—E.ON.”

Achimovsk formation of the Urengoiyskoye field. The Achimovsk formation of the Urengoiyskoye field is divided into several parts, each of which will be gradually developed. In July 2008, we commenced the development of the first part, which has been undertaken by ZAO Achimgaz (“Achimgaz”), a joint venture with Wintershall Holding AG (“Wintershall”). At the pilot stage of its commercial operation, we expect this part to annually produce approximately 0.7 bcm of natural gas and 400 thousand tons of gas condensate. If this stage is successful, we intend to commence the commercial development of the field with an expected production level of 7.4 bcm of gas and 2.4 million tons (19.6 mmbbls) of gas condensate annually. See “—Projects and alliances in reserves and production—BASF/Wintershall.” In the fourth quarter of 2008, we plan to put into operation the second part of the Achimovsk formation of the Urengoiyskoye field with an annual production capacity of approximately 3.5 bcm of natural gas. We plan to invest RR6.8 billion in developing the second part of this field from 2008 through 2011.

Priobskoye field. The largest field operated by Gazprom Neft is located in the southern area of the Priobskoye field in the Khanti-Mansiysky autonomous region. The development of this area began in 2002. 578 wells were drilled between 2005 and 2007. The production capacity for this field amounted to 6.3 million tons in 2007. For the period from 2008 to 2014, we plan to drill 1256 wells. We expect to achieve the estimated maximum production level of 12.6 million tons of crude oil for this area by 2012. We plan to invest RR52.1 billion in the project in the period from 2008 to 2010.

Yamal Peninsula.

The Yamal Peninsula is located to the north of, and is characterized by harsher climatic conditions than, the Nadym-Pur-Taz region. The total explored category ABC₁ reserves of the Yamal Peninsula are estimated at a level of more than 10 tcm of natural gas and 500 million tons of crude oil and gas condensate. More than half of these reserves are located in the Bovanenkovskoye and Kharasaveiskoye gas condensate fields and the Novoportovskoye oil field. We hold production licenses for these fields. In cooperation with the Yamal-Nenets regional administration, we amended the previously developed “Program for Comprehensive Commercial Development of Hydrocarbon Deposits on the Yamal Peninsula and under its Adjacent Waters” and submitted it to the Ministry of Industry and Trade of the Russian Federation in January 2008. This program sets out a state policy for investment, construction, taxation and legal support for the development of the resources in the Yamal Peninsula.

The estimated annual amount of gas production at the Cenomanian-Aptian layers of the Bovanenkovskoye field is 115 bcm, which in the longer term is expected to increase to 140 bcm per year after taking into account gas condensate layers. In 2011, we plan to launch the first start-up complexes to develop the Cenomanian-Aptian layers of the Bovanenkovskoye field, with an annual throughput of at least 15 bcm, and a trunk pipeline between Bovanenkovo and Ukhta. In 2008, we expect to spend RR53.8 billion to construct facilities on the Bovanenkovskoye and Kharasaveiskoye gas condensate fields and RR25.0 billion to construct the Obskaya-Bovanenkovo railroad.

The Arctic Shelf

We consider Russia’s Arctic Shelf, and particularly the Barents Sea, to be a promising area for the further development of new hydrocarbon deposits. We are focusing our development activities on the following projects:

Shtokmanovskoye field. The Shtokmanovskoye gas condensate field is located in the center of the Barents Sea northwest of the Yamal Peninsula and 650 km northeast of Murmansk. In accordance with our Shtokmanovskoye field development plan, its projected production capacity is 71 bcm per year, which can potentially be extended to up to 95 bcm per year. After the completion of the first phase of development, it is envisioned that the project will produce 23.7 bcm of natural gas per year, beginning with pipeline gas deliveries in 2013 and LNG supply of up to 7.5 million tons per annum in 2014. Gas supply from the Shtokmanovskoye field is planned both through the UGSS and in the form of LNG to be supplied to remote markets.

In 2007, we signed agreements with Total and StatoilHydro regarding the main conditions pursuant to which we will cooperate with them in the first phase of the development of the Shtokmanovskoye gas condensate field. See “Project and alliances in reserves and production—Total and StatoilHydro.”

Our investment program for 2008 provides for RR4.7 billion in capital investments and RR10.0 billion in long-term financial investments.

Prirazlomnoye oil field. This field is located on the Pechora Sea shelf. Pursuant to the Prirazlomnoye oil field development program, the estimated maximum annual oil production volume for this field is expected to be 6.6 million tons (48.4 mmbbls), and the total investment for the period from 2008 through 2012 is expected to be approximately RR24.2 billion for the field to reach the maximum output level. We plan to install an offshore ice-resistant platform and begin production at the field in 2010. Investments for the Prirazlomnoye field development project, which comprise part of our investment program, are included in the long-term financial investments plan and in 2008 may reach RR10.1 billion.

Obskaya and Tazovskaya Bays. We are conducting exploration activities on the shelf of the Obskaya and Tazovskaya Bays in the Yamalo-Nenetski autonomous area of the Tyumenskaya region. In accordance with the program to develop hydrocarbon reserves on the shelf of the Russian Federation through 2030, which was approved by our Management Committee in September 2005, annual gas production on the shelf of the Obskaya and Tazovskaya Bays and the neighboring land areas is expected to be 82 bcm. The total shelf C₁ and C₂ categories of reserves in the region are estimated to be 1.3 tcm of natural gas and 5.6 million tons of liquid hydrocarbons. We hold exploration and production licenses for the Severo-Kamennomysskoye, Kamennomysskoye-more, Obskoye and Dolginskoye fields as well as geographical exploration licenses for the Chugoryakhinskaya area. Pursuant to a resolution of the Government, a license for the Tota-Yakhinskoye and Semakovskoye gas fields in the region is currently being registered to us. Bringing

on stream the Severo-Kamennomysskoe field in 2015 with projected annual capacity of 15.3 bcm is expected to begin the development of the region. Total investment in this field to reach the maximum output level is expected to be approximately RR50 billion.

Volga river basin

Astrakhanskoye field. According to our estimates, the Astrakhanskoye field in southern Russia in the Volga river estuary can support production of separator gas of 50-60 bcm annually (or 25-30 bcm of sales gas). Currently, the Astrakhanskoye field produces approximately 12 bcm (or 6 bcm of sales gas) annually due to environmental restrictions and the need to use expensive technologies.

We are exploring opportunities to use such technologies in the Astrakhanskoye field. In particular, to increase production, we are considering developing the Astrakhanskoye field using a process of acid gas flooding which enables us to effectively decrease pollutant emissions and eliminate the storage and processing of illiquid related sulfur.

Eastern Siberia and the Far East

Eastern Siberia and the Far East, including the continental shelf, contain significant natural gas reserves, which are estimated at approximately 10 tcm.

In November 2003, Gazprom's Board of Directors resolved that our future plans for the development of reserves in this region should focus on participating in tenders and auctions for the exploration and development of hydrocarbon resources in Irkutsk region, Khabarovsk Krai, Krasnoyarsk Krai, the Republic of Sakha (Yakutia) and Sakhalin region, collaborating with other participants in the gas market in the region and developing a gas supply network for end users of natural gas.

We own exploration and development licenses and are conducting exploration work in the Krasnoyarsk region and the Irkutsk region. Another important region of our development in eastern Siberia is the Republic of Sakha (Yakutia). In particular, in April 2008, the Government granted us a license for the Chayandinskoye oil and gas condensate field located in that region without tender.

In 2008, for implementing projects in eastern Siberia, we plan RR13.0 billion of capital investments and RR0.7 billion of long-term financial investments.

In addition, in June 2007, we signed an agreement to purchase a 62.9% interest in RUSIA Petroleum from TNK-BP, which with its subsidiaries hold the licenses for the Kovykta field. According to State reserve balances, the Kovykta field contains approximately 2 tcm of C₁ and C₂ natural gas reserves. See “—Projects and alliances in reserves and production—BP and TNK-BP.” We expect to consummate the transaction in the second half of 2008.

The Government has appointed us to coordinate the implementation of the Eastern Program to create a unified gas production, transportation and supply system in the region with the potential to export gas to China and other Asian-Pacific countries. The Eastern Program currently identifies Sakhalin as one of the highest-priority districts for full-scale commercial development in the Russian Far East. In September 2007, the Ministry of Industry and Trade of Russia approved the Eastern Program. In connection with the Eastern Program, we estimate that we will produce 160 bcm of natural gas in eastern Siberia and the Far East by 2030 subject to domestic and international demand. Natural gas from this region is distinguished by its valuable components such as ethane, propane, butane, heavy hydrocarbons and helium. Therefore, we are considering developing fields in the region and constructing new refining facilities to exploit such components. We expect that supplies of natural gas to Russian consumers in eastern Siberia and the Far East will amount to 30 bcm by 2030. We expect to supply Russian natural gas to the Asian Pacific Region in the amount of 52-77 bcm by 2030, including 25-50 bcm of pipeline gas and 27 bcm of LNG. Subject to favorable economic conditions, 35 bcm of natural gas may be directed from the region to the UGSS.

In April 2006, Gazprom's Board of Directors resolved that our immediate development activity in Sakhalin should be the creation and development of our own resource base and gas transportation system, Sakhalin-Khabarovsk-Vladivostok. See “—Gas Transportation—Gas transportation projects in Russia—Sakhalin-Khabarovsk-Vladivostok pipeline.” We intend to participate in the primary gas production and transportation projects in Sakhalin and the Sakhalin shelf. In April 2007, we acquired a controlling stake in Sakhalin Energy, the project operator of Sakhalin II. See “—Projects and alliances in reserves and production—Sakhalin II.”

Major transactions with hydrocarbon assets

Gazprom Neft. In October 2005, we acquired a 72.66% interest in Gazprom Neft, which increased our total interest in Gazprom Neft to 75.68%, for U.S.\$13.1 billion. In April 2007, EniNeftegaz, an entity owned by Eni and Enel, won an auction for certain oil and gas assets of Yukos, including 100% interests in Arcticgaz, Urengoil and Neftegaztehnologia and a 20% interest in Gazprom Neft, agreeing to pay U.S.\$5.82 billion for the assets. We entered into two two-year call option agreements with Eni and Enel to have the right to acquire both a 20% interest in Gazprom Neft and a 51% interest in EniNeftegaz. In the event that we exercise the 51% call option, the assets will be operated through a joint venture between Eni and the Group. Gazprom did not participate in any way, including financially, in EniNeftegaz's preparation for or participation in the auction. Gazprom does not have any ownership interest in the relevant assets absent its exercise of the options.

Gazprom Neft is one of Russia's largest vertically integrated oil companies, and engages in crude oil and gas exploration, production, refining and marketing. Gazprom Neft and TNK-BP own an equal interest in Slavneft, another oil company in Russia. Gazprom Neft and TNK-BP agreed to equally divide Slavneft's production assets, leaving Slavneft's oil refineries under joint management.

Sevmorneftegaz. Sevmorneftegaz holds the licenses for the development of the Shtokmanovskoye and the Prirazlomnoye fields. As of December 31, 2004, we owned a 58% interest in Sevmorneftegaz. In March 2005, we acquired an additional 42% of Sevmorneftegaz's shares from Rosneft-Purneftegaz, which increased our interest in Sevmorneftegaz to 100%. See “—Development activities—The Arctic Shelf—Shtokmanovskoye field” and “—Development activities—The Arctic Shelf—Prirazlomnoye oil field” for a further discussion of our activities in these development projects. In July and October 2007, we signed framework agreements with Total and StatoilHydro regarding the main conditions pursuant to which we will cooperate in the first phase of the development of the Shtokmanovskoye gas condensate field. See “—Projects and alliances in reserves and production—Total, StatoilHydro”.

Nortgaz. Nortgaz holds licenses for the development of the North Urengoiskoye field. We initially held a 51% stake in Nortgaz, which was reduced to 0.55% in 2001 as a result of a court decision invalidating our participation in a share issuance by Nortgaz in 1999. In June 2005, we signed an agreement with the shareholders of Nortgaz that provided for our interest in Nortgaz to be increased to 51% and for all litigation in respect of our stake in Nortgaz to be terminated without payment of additional compensation. The agreement also sets forth the terms by which Nortgaz will be managed by its shareholders following our acquisition of such additional shares, and in certain circumstances requires us to sell the shares that we own or to purchase the remaining 49% of the shares. On September 21, 2005, we obtained legal ownership of 51% of the common shares of Nortgaz. Nortgaz is included as our associated company in our financial statements.

Severneftegazprom. Severneftegazprom, a production company, holds a license for the development of the Yuzno-Russkoye field. In February 2003, we acquired a 51% interest in Severneftegazprom from Itera, increasing our interest in the share capital of Severneftegazprom to 100%. In October 2007, we executed an asset swap agreement with BASF regarding the development of the Yuzhno-Russkoye field. In accordance with the agreement, BASF received a 25% minus one voting share interest, as well as one preferred non-voting share (equivalent to a 10% interest in the economics of the project). See “—Projects and alliances in reserves and production—BASF/Wintershall.” In July 2006, we entered into an asset swap agreement with E.ON, pursuant to which E.ON is expected to provide us with certain assets in Europe in exchange for a 25% minus one voting share interest in Severneftegazprom. See “—Projects and alliances in reserves and production—E.ON.”

Achimgaz. In July 2003, we entered into a framework agreement and constitutive documents regarding the creation of a joint venture, Achimgaz, between our subsidiary, Gazprom Dobycha Urengoi, and Wintershall as equal participants. In December 2004, a principal agreement was executed among Gazprom, Gazprom Dobycha Urengoi, Wintershall and Achimgaz relating to the development of parcel A1 of the Achimovsk formation of the Urengoiskoye field. See “—Projects and alliances in reserves and production—BASF/Wintershall.” Gazprom Dobycha Urengoi is the license holder for the development of the parcel, and Achimgaz is the project operator pursuant to a service agreement.

Novatek. In September 2006, we acquired 19.4% of the issued shares of Novatek. Novatek is Russia's largest independent gas producer and is the second-largest (after us) gas producer in Russia. Novatek estimates that it produced approximately 28.7 bcm of natural gas and 2.5 million tons of

liquid hydrocarbons in 2006 and, based on SEC Standards (taking into account Novatek's intention to prolong the existing licenses upon expiration and to continue development of the respective fields), had proved and probable reserves of 7.4 bboe, including natural gas reserves of over 1 tcm as of December 31, 2006. Novatek's upstream activities are located in the Yamal-Nenets region. The shareholders agreement limits our shareholding in Novatek to 19.9% of Novatek's issued shares at any time.

Sibneftegaz. In furtherance of our partnership agreement with Itera, Gazprombank acquired a 51% interest in Sibneftegaz in December 2006. However, according to the terms of the current foundation documents of Sibneftegaz, the 51% interest does not provide for our absolute control over Sibneftegaz. Sibneftegaz holds exploration and production licenses for four license blocks: Beregovoye, Pyreynoye, Zapadno-Zapolyaroye and Khadyryakhinskoye in the Yamal-Nenets autonomous area. As of December 31, 2007, aggregate ABC₁ and C₂ gas reserves of the blocks are estimated to be 406 bcm. The total gas production potential at these blocks amounts to 12 bcm per year. In April 2007, the Beregovoye field was put into commercial operation. The current gas production at the field amounts to approximately 20 mmcm per day.

Yamal-SPG and Tambeineftegaz. In 2005, Gazprombank acquired a 25.1% interest in OAO Tambeineftegaz, which holds a license for the Maloyamalskoye gas condensate field (with reserves of categories C₁+C₂ estimated at 0.2 tcm of natural gas and 20 million tons of gas condensate) and OAO Yamal SPG, which holds a development license for the Yuzhno-Tambeyskoe gas condensate field (with reserves of categories C₁+C₂ estimated at 1.2 tcm of natural gas and 51.6 million tons of gas condensate). Currently, we are conducting a geologic exploration of these fields.

Lagansky Block. In July 2007, our subsidiary, Gazprom Netherlands B.V., signed a call option agreement with Lundin Petroleum AB to purchase a 50% plus one participatory share stake in the project for the exploration of the Lagansky Block located in the Russian sector of the Caspian Sea. The Lagansky Block's potential gas resources are estimated at more than 600 mboe. We expect to drill two exploration wells in the Lagansky Block by the end of 2008.

Tomskneft. In December 2007, Gazprom Neft acquired a 50% interest in Tomskneft from OOO Neft-Aktiv, a subsidiary of Rosneft, for RR88.2 billion. Tomskneft holds licenses for the development of fields in Tomsk Region and Khanty-Mansiysky autonomous area. As of December 31, 2007, Tomskneft had ABC₁+C₂ reserves of 386.2 million tons of crude oil and gas condensate and 94.5 bcm of commercial gas. In 2007, Tomskneft produced 11.6 million tons of crude oil and 1.7 mcm of natural and oil gas. Gazprom Neft and Rosneft jointly decide on all issues with respect to operation of the company.

Projects and alliances in reserves and production

Total and StatoilHydro. In July 2007, we signed with Total a framework agreement regarding the main conditions pursuant to which we will cooperate in the first phase in the development of the Shtokmanovskoye gas condensate field. In October 2007, we signed a similar agreement with StatoilHydro. In February 2008, we entered into a shareholders agreement with Total and StatoilHydro and established a special-purpose company Shtokman Development AG to manage engineering, financing, construction and exploitation of installations during the first phase of the development of the Shtokmanovskoye field. Our stake in the new company is 51%, and Total and StatoilHydro own the remaining 25% and 24% interests, respectively. We will retain 100% control of Sevmorneftegaz, the license holder for the development of the Stokmanovskoye field, as well as the right to market all of the hydrocarbons produced. We expect that, upon completion of operational period of the first phase in the development of Shtokmanovskoye field, Total and StatoilHydro will assign to us their stakes in the special-purpose company.

BP and TNK-BP. In June 2007, we signed an agreement with BP and TNK-BP pursuant to which TNK-BP will sell us a 62.9% stake in RUSIA Petroleum, which with its subsidiaries holds the licenses for the Kovykta field, as well as a 50% stake in the OAO Vostochno-Sibirskaya Gazovaya Companiya (the "East Siberian Gas Company"), which is implementing a regional gasification project for the Irkutsk region. According to State reserve balances, the Kovykta field contains approximately 2 tcm of C₁ and C₂ natural gas reserves. The transaction is expected to be completed in the second half of 2008.

The agreement envisages a call option for TNK-BP to buy back up to a 25% plus one share stake in RUSIA Petroleum and up to a 25% stake in East Siberian Gas Company.

BASF/Wintershall. In October 2007, we executed an asset swap with BASF regarding the development of the Yuzhno-Russkoye field. See “—Gas transportation – International projects and alliances for gas transportation.” Pursuant to the agreement, BASF received a 25% minus one voting share interest, as well as one preferred non-voting share (equivalent to a 10% interest in the economics of the project), in Severneftegazprom, which holds the license for the development of the Yuzhno-Russkoye field. In return, we increased our share in WINGAS from 35% to 50% minus one share and in December 2007 received a 49% interest in Wintershall, the license holder for development of two Libyan oil concessions (C96 and C97). In October 2007, as part of this transaction, Gazprom and BASF established a closed joint-stock company, ZAO Gazprom URGM Trading, which will purchase gas from the Yuzhno-Russkoye field from Severneftegazprom and on-sell it in the amount proportional to BASF’s participation share. Gazprom owns 100% of common shares in ZAO Gazprom URGM Trading, and BASF owns one preferred share.

In July 2003, we entered into a framework agreement and constitutive documents regarding the creation of a joint venture, Achimgaz (in which both parties have equal interests), between our subsidiary, Gazprom Dobycha Urengoi, and Wintershall, a subsidiary of BASF. In December 2004, a principal agreement was executed among Gazprom, Gazprom Dobycha Urengoi, Wintershall and Achimgaz relating to the development of parcel A1 of the Achimovsk formation of the Urengoisoye field. See “—Development activities—Nadym-Pur-Taz production region—Achimovsk formations of the Urengoisoye field.” Developing this section will require a capital investment of approximately U.S.\$700 million. If this first phase is successful, industrial development of the field will begin. Due to our significant initial investment related to obtaining licenses for subsoil use, exploration, assessment and infrastructure development, the parties have agreed to invest further on a disproportionate basis, whereby Wintershall will initially invest U.S.\$187 million and all further investments will be provided on an equal basis from Achimgaz profits.

E.ON. In July 2006, we entered into a framework agreement with E.ON, pursuant to which E.ON may receive a 25% minus one voting share interest in Severneftegazprom, which holds the license for the Yuzhno-Russkoye field. In return, Gazprom may receive assets from E.ON of equal value to such interest, which we believe may include power stations and underground storages in Europe.

CHEVRON. In November 2006, Gazprom Neft and Chevron created a joint venture, OOO Severnaya Tayga Neftegaz, for the geological exploration and further development of the Aikhetinskoye and Pyakutinskoye areas in Western Siberia. Gazprom Neft holds licenses for those areas. In September 2007, Gazprom Neft increased its interest in the joint venture from 30% to 75%. OOO Severnaya Tayga Neftegaz became the holder of licenses for those subsoil areas in April 2008. In June 2008, Chevron notified Gazprom Neft that it intended to exit the project. Currently, Gazprom Neft and Chevron are in negotiations on further cooperation in other subsoil areas.

LUKOIL. In March 2005, we signed a strategic partnership agreement with LUKOIL. The agreement provides for cooperation in oil and gas projects in Russia and other countries through 2014. In furtherance of our strategic partnership, we and LUKOIL signed a framework agreement according to which LUKOIL sells us gas it produces at its Nakhodkinskoye gas field starting from the second quarter of 2005. Under this agreement, we purchased 7.5 bcm of natural gas in 2006 and 7.2 bcm in 2007.

In June 2003, we formed OOO TsentrcaspNeftegaz (“TsentrcaspNeftegaz”), a joint venture with LUKOIL in which we and LUKOIL have equal interests. The joint venture has been established pursuant to a protocol to the treaty between Russia and Kazakhstan on the demarcation of the seabed in the northern part of the Caspian Sea. Pursuant to the protocol, TsentrcaspNeftegaz is authorized to act on behalf of Russia for the development of the Central geological structure in the Caspian Sea together with ZAO NK KazMunaiGaz (“KazMunaiGaz”), acting on behalf of Kazakhstan. The Central geological structure is located within the Russian sector of the Caspian Sea, 150 km to the east of Makhachkala. In March 2005, TsentrcaspNeftegaz and KazMunaiGaz entered into an agreement on the principles for joint development of hydrocarbon resources of the Central geological structure. In May 2008, in the course of testing the first exploration well on the Central geological structure, TsentrcaspNeftegaz discovered a large oil and gas condensate field with preliminary estimated category C₃ resources of approximately 270 million toe.

Rosneft. In November 2006, we entered into a strategic partnership agreement with Rosneft for the purchase of natural gas from Rosneft’s gas fields in western Siberia. We also intend to construct with Rosneft processing plants in eastern Siberia and the Far East.

Sakhalin II. In April 2007, we completed our previously announced acquisition of 50% plus one share interest in Sakhalin Energy, the operator of the Sakhalin II project, for which we paid U.S.\$7.45 billion. Currently, its shareholders have invested more than U.S.\$18 billion in the project. The development stages of the second phase of the project are anticipated to be completed in the first half of 2009. In April 2007, the Ministry of Natural Resources and Ecology of the Russian Federation approved the project's environmental action plan. As of the date of this Base Prospectus, no substantial environmental fines or other penalties have been levied with respect to the project.

We expect that Sakhalin Energy will continue operating the Sakhalin II project. Customers in Japan, Korea and the western coast of North America have already contracted LNG volumes approximately equal to the planned capacity of the LNG plant.

The Sakhalin II project is one of the largest oil and gas projects in the world. The project includes the Piltun-Astokhskoye and Lunskeye fields, with categories ABC₁ and C₂ total extractable reserves of 170 million tons of crude oil and gas condensate and 651 bcm of gas, respectively. Sakhalin II also includes three offshore platforms and an offshore piping system with an overall length of 300 km, a united coastal technological complex dedicated to process oil and gas for further transportation, approximately 800 km of ground oil and gas pipelines, a year-round oil shipment terminal, the first Russian LNG production plant and LNG shipment facilities, and modernization of the island infrastructure. Currently, the production capacity of the Sakhalin II project is approximately 70 thousand boe per day. At the second stage of development, the production possibilities are expected to increase up to 340 thousand boe per day, including 9.6 million tons of LNG per year. Sakhalin II production is subject to a production sharing agreement.

Venezuela. In September 2005, we won a tender for the development of Phase A of the Rafael Urdaneta project in Venezuela. We received from the Venezuelan government licenses to conduct geological research and develop hydrocarbon reserves of the Urumaco 1 and Urumaco 2 deposit blocks. Estimated natural gas reserves of these blocks total 70-80 bcm. In accordance with the tender terms we have paid the tender price of U.S.\$40 million in cash. A four-year exploration program that provides for seismic assessment and drilling of four exploration wells is planned.

Petrovietnam. Under a framework on cooperation with Petrovietnam, a Vietnamese national company, in September 2000, we concluded an oil and gas agreement for the development of Block 112 of the continental shelf in the Gulf of Bak Bo, in Vietnam, on a production sharing basis. The operator of the project is Vietgazprom, a joint venture in which Petrovietnam and we have equal interests. In 2007, in the course of geologic exploration, we achieved a commercial inflow of natural gas on Block 112 in the amount of 400 mcm per day. We plan to invest RR13.9 billion in the project in the period from 2008 to 2011.

In April 2005, we received permission from the Vietnamese government to develop Block 113 as part of our project and in the framework of the above oil and gas agreement. In November 2006, we signed an agreement with Petrovietnam extending our oil and gas cooperation. In May 2008, we signed an agreement on further cooperation in exploration and development of the new Blocks 120, 130, 131 and 132 on the continental shelf of Vietnam. Vietgazprom is expected to become the operator of the project. The agreement provides for the establishment of a joint venture, Gazpromviet, between ZAO Zarubezhneftegaz, our wholly-owned subsidiary, and Petrovietnam, to participate in oil and gas projects in and outside of Russia.

Bay of Bengal. In 2000, together with the India state-owned company GAIL, we won a tender for the exploration and development of hydrocarbon reserves in Block 26 in the Bay of Bengal on a production sharing basis. Pursuant to the production sharing agreement signed in 2004 among GAIL, Gazprom and the Ministry of Oil and Natural Gas of India, the seismic assessment on Block 26 has been completed and two exploratory wells have been drilled.

In 2007, GAIL withdrew from this production sharing agreement. In September 2007, we received a letter from the Ministry of Oil and Natural Gas of India expressing its desire to continue work under this project. Pursuant to the terms of the production sharing agreement, we decided to move to the next phase of exploration.

We are preparing to carry out a marine seismic survey in September 2008 and construct a third exploration well thereafter.

The total resources of Block 26 are estimated at 367 mtoe in accordance with Russian reserves system classifications. Capital investment in the project is estimated at approximately U.S.\$1.5 billion.

In this Base Prospectus, we do not include our interest in this project in our total hydrocarbon reserves.

Libya. In December 2006, we won the tender for the exploration and development of hydrocarbons located in Block 19, on the shelf of the Mediterranean Sea in Libya, for U.S. \$10.1 million. According to the license agreement, we are to perform seismic assessments and drill six exploratory wells. If reserves are found, our share in the field's production would be 10%. In March 2007, we signed a production sharing agreement with the Libyan National Oil Company, which regulates our participation in the exploration and development of Block 19. The project's exploration and development plan calls for an investment by Gazprom of approximately €200 million for the period from 2007 through 2011.

In December 2007 we won a tender for the exploration and development of hydrocarbons located in the land-based Block 64 of the Gadames oil province in Libya. According to preliminary estimates, Block 64 contains oil resources of approximately 20 million tons. The project's exploration and development plan calls for an investment by Gazprom of approximately €100 million for the period from 2008 through 2011.

Our subsidiary, Gazprom Libya B.V., is currently carrying out exploration works on Blocks 19 and 64.

In addition, in December 2007, in accordance with our asset swap agreement with BASF, we received a 49% interest in two Libyan oil concessions, C96 and C97. See “—BASF/Wintershall.”

Bolivia. In February 2007, we signed a memorandum of understanding with the Bolivian state-owned petroleum company Yacimientos Petroliferos Fiscales Bolivianos (“YPFB”). The memorandum provides for our cooperation in Bolivian hydrocarbon exploration and development, the possibility of participation in infrastructure projects, including LNG production, and the training of oil and gas sector professionals.

In March 2008, we signed an agreement with YPF on geological exploration of the Sunchal, Acero and Carohuaicho blocks in Bolivia. According to preliminary estimates, potential gas reserves of these blocks amount to 300 bcm.

Novatek. In July 2005, we entered into a partnership agreement with Novatek. This agreement provides for our cooperation in the transportation, processing and sale of natural gas and petrochemical products. We agreed that Novatek may become involved in projects to improve the operations of the UGSS. In September 2006, we acquired 19.4% of Novatek's issued shares. The shareholders agreement limits our shareholding in Novatek to 19.9% of Novatek's issued shares at any time. See “—Major transactions with hydrocarbon assets—Novatek.”

Itera. In June 2006, we entered into a partnership agreement with Itera for 2006 to 2010. Pursuant to this agreement, Itera will work with us to expand, reconstruct and modernize the UGSS. We will also cooperate with Itera to develop and construct gas condensate transportation facilities and to jointly develop gas and petrochemical facilities. The agreement also provides that Itera will sell us a portion of the gas it produces and will participate in supplying raw materials to our refining companies. Pursuant to this agreement, in December 2006 Gazprombank acquired a 51% interest in Sibneftegaz, which holds the license for the Beregovoye field. See “—Major transactions with hydrocarbon assets—Sibneftegaz.”

South Pars. Since 1997, we have participated in a project to develop the second and third phases of the South Pars field, located in the Iranian segment of the Persian Gulf, with a total cost of more than U.S.\$2 billion. We hold a 30% interest in the project. Our partners in this project are Total, which holds a 40% interest, and Petronas, which holds a 30% interest. National Iranian Oil Company has been making payments to the project partners for construction work since the second quarter of 2002, and such payments are scheduled to continue through 2009.

The U.S. Department of State has issued a determination that the investment made by our partners and us in Iran's South Pars gas and condensate field constituted activity that is covered by the Sanctions Act and, at the same time, communicated its decision to waive sanctions under Section 9(c) of the Sanctions Act with respect to such investment. The waiver applies to activities in the South Pars field only, and not to any other activities we may conduct in Iran. See “Risk Factors—Risks Relating to Our Business—Violations of existing international or U.S. sanctions could subject us to penalties that could have an adverse effect on us.”

Central Asia. With the aim of cooperating with countries in the region to ensure a similar effective industrial cooperation to that established during the time of the USSR, we intend to make

the maximum contribution to the recovery and development of the oil and gas industry in central Asia.

In December 2002, we signed an agreement with NKKh Uzbekneftegaz (“Uzbekneftegaz”), an Uzbek national holding company, that provides for cooperation in purchasing natural gas in Uzbekistan, producing gas in Uzbekistan under the terms of a production sharing agreement, conducting diagnostic assessments of trunk pipelines, and modernizing gas transport capacity. See “—Marketing—Cooperation with the central Asian countries in gas marketing.” In May 2003, we signed cooperation agreements for the gas industry with Kyrgyzstan and Tajikistan. Pursuant to these agreements, we will undertake projects for hydrocarbon exploration and production, reconstruct and construct new gas transportation and storage facilities, and commence gas and liquid hydrocarbons supply projects in these countries.

We are undertaking a pilot gas production project in Uzbekistan on a production sharing basis in order to resume production at the Shakhpakhty field. The project’s production sharing agreement became effective on July 30, 2004, and since then field exploitation has begun. In 2007, the field produced over 300 mmcm of natural gas. This project (which will include estimated investments of up to U.S.\$20 million) allowed us to implement, on a production sharing basis, larger field development projects in the Ustyurt region. In January 2006, we signed an agreement with Uzbekneftegaz setting forth basic principles for conducting geological exploration of investment blocks in the Ustyurt region. Pursuant to this agreement, we intend to invest U.S.\$400 million in exploration works within five years from the date of obtaining the requisite licenses in 2007. Under these agreements in 2006 we received and in 2007 reissued seven licenses for subsoil use. We, together with the Government of Uzbekistan, approved a multistage program for geologic exploration in the Ustyurt region of Uzbekistan for the period from 2006 to 2011.

In January 2006, we signed a memorandum of understanding with the Kyrgyz government to establish a joint oil-and-gas venture. In May 2007, we signed an agreement with the Kyrgyz government that sets out the principles of our exploration in the territory of Kyrgyzstan. In December 2007, we together with the Government of Kyrgyzstan approved a feasibility study and a program for the gradual geological subsoil exploration of two prospective oil and gas provinces in Kyrgyzstan – Kugartskaya and Vostochniy Maylisu-IV. In February 2008, we received two licenses for subsoil use in order to begin the geological exploration in these provinces.

In March 2006, we signed a memorandum of understanding to establish a joint Russian-Tajik venture with the Ministry of Energy of the Republic of Tajikistan. In June 2008, we signed an agreement with the Tajik government that will establish the exploration principles for the territory of Tajikistan.

For our agreements with central Asian countries in natural gas sales and transit, see “—Marketing—Cooperation with the central Asian countries in gas marketing.”

Other activities. In 2005, we signed memoranda of cooperation with the Ministry of Petroleum of Pakistan, the Venezuelan Petr6leos de Venezuela SA, the Indian Oil and Natural Gas Corporation, the Egyptian Natural Gas Holding Company and Thai PTT. We signed a memorandum of understanding in August 2006 with the Algerian company Sonatrach and in February 2007 with the Brazilian oil company Petrobras. All of these agreements provide the basis for joint hydrocarbon (including LNG) production, transportation and sale activities between us and each of these companies.

Gas Transportation

We own and operate the UGSS, a single, centrally controlled system for natural gas preparation, transportation and storage. The UGSS comprises the world’s largest high-pressure trunk pipeline system. As of December 31, 2007, the total length of the system was approximately 158,200 km (not including pipelines for the transportation of gas condensate) and included 218 compressor stations on the pipelines with a total capacity of approximately 41,400 MW and 25 underground natural gas storage facilities with a market-grade gas storage capacity of approximately 65.0 bcm.

The following table sets out certain data for our gas transportation segment for the periods indicated.

	Year ended December 31,		
	2007	2006	2005
Total volume transported (bcm).....	706.7	717.8	699.7
of which for third parties ⁽¹⁾ (bcm)	120.5	115.0	96.6
Depreciation (million RR).....	83,238	73,229	69,192
Capital expenditure (million RR).....	193,664	215,121	150,567
Total assets (million RR)	1,085,608	1,535,281	1,376,760

Note:

(1) Including deliveries of TOO KazRosGaz (“KazRosGaz”).

The UGSS transported natural gas (including gas from independent suppliers) through Russia an average distance of approximately 2,808 km for domestic consumption and 3,252 km for export in 2007.

Our pipeline system transports natural gas principally from large western Siberian fields westward toward the more heavily populated regions of Russia, the FSU countries and Europe. Other parts of the pipeline system originate in the natural gas fields of the southern Russia-Volga region, including the Orenburgskoye and Astrakhanskoye fields. Several large pipeline systems enter Russia from Kazakhstan, transporting natural gas from fields in central Asia. We have concluded a number of agreements to purchase and transport significant volumes of natural gas from Turkmenistan and Uzbekistan. See “—Marketing—Cooperation with the central Asian countries in gas marketing.”

Our Transport segment is highly integrated to ensure reliable natural gas deliveries to distributors, export customers and consumers. The high level of integration of our pipeline network is achieved through the use of multiple and parallel pipelines, inter-connectors and underground storage facilities. In most cases, the extensive branching structure of the UGSS, together with the availability of spare pipeline throughput capacity, enables us to re-route or to increase natural gas flow in case of an emergency. We believe that within the past 10 years there have not been any significant supply interruptions to our customers, despite several pipeline failures, due to the use of available spare transportation capacity within the UGSS and by releasing gas from our gas storage system.

We recently completed the Yamal-Europe and Blue Stream export pipelines, which have annual projected capacities of approximately 33 bcm and 16 bcm, respectively. The Yamal-Europe pipeline passes through Belarus, Poland and Germany and connects the UGSS in Russia with the STEGAL pipeline in Germany. The German section of the pipeline is owned by WINGAS. The Polish section is owned by EuRoPol GAZ, a joint venture in which we participate with PGNiG S.A. (a state-controlled Polish gas company), and Gaz-Trading. We own the section of the pipeline in Belarus. The Blue Stream pipeline supplies gas to Turkey bypassing transit countries. We, together with the Italian company ENI, own the offshore section of the pipeline which runs under the Black Sea and is approximately 390 km long.

Our high-pressure trunk pipeline system transports natural gas from production areas to refining facilities and other gas consumers. We operate and service this pipeline on a regional basis through 17 wholly-owned subsidiaries, that are responsible for the operation and maintenance of our high-pressure trunk gas pipelines, gas transit, gas storage and deliveries of gas to gas distribution companies and for export. The trunk pipeline system consists of multiple parallel lines of large diameter pipes (defined as pipes with diameters of 1,420 mm, 1,220 mm and 1,020 mm). Our dispatch management center, located in Moscow, controls and manages the UGSS and all natural gas transportation in Russia.

We are continually working to improve the efficiency of the UGSS. The main objectives of our reconstruction program for the period between 2002 and 2006 were to ensure the reliability, efficiency and ecological safety of gas transportation, while eliminating bottlenecks that limit the delivery of gas. We estimate that our reconstruction program has successfully prevented a reduction in capacity caused by gas transportation system aging of 20 bcm per year, and provided for a capacity gain of 3 bcm per year and a reduction of transportation fuel gas expenditures of more than 1.6 bcm per year.

In September 2006 we approved a new comprehensive program for the reconstruction and refurbishment of the gas transportation system during 2007 to 2010.

In the period from 2007 to 2010, we plan to reconstruct around 5,000 km of pipelines of different size, replace and/or modernize more than 500 gas pumping aggregates and reconstruct more than 300 gas distribution stations and more than 900 km of branch pipelines.

Storage. We currently operate a network of 25 underground gas storage facilities in Russia in order to help smooth seasonal fluctuations in the demand for gas. All of our underground storage facilities are located either in close proximity to our major consumers or at the main hubs of our transportation system which provides us with flexibility in the redirection of gas flow if required. In October 2007, under the reorganization of our corporate structure which is currently in progress, we established our new 100% subsidiary OOO Gazprom PHG which operates our underground storage facilities in Russia. Our gas transportation subsidiaries previously operated these facilities.

During peak heating periods, we supply approximately 20% of total deliveries of natural gas to Russian consumers from our gas storage network, and in periods of extreme cold this may reach 30%.

We are currently continuing to implement a program to increase our underground storage capacity from 2005 through 2010, primarily by reconstructing and expanding our existing facilities and commissioning new underground gas storage facilities. According to the program, we plan to increase our maximum daily outflow capacity as at the beginning of gas withdrawal from 550 mmcm in the 2004-2005 winter heating season to 758 mmcm through the 2010-2011 winter heating season. We also plan to increase our average daily outflow capacity from 470 mmcm in the 2004-2005 winter heating season to 588 mmcm through the 2010-2011 winter heating season.

By the beginning of the 2007-2008 winter heating season, through the implementation of the program, we reached a potential average daily outflow capacity of 492 mmcm, a maximum daily outflow capacity of 608 mmcm and ensured a commercial gas storage volume of 63.5 bcm.

Three new underground gas storage facilities are currently under construction in Russia. A number of underground gas storage facilities are being explored and designed. We have planned to invest RR10.2 billion in underground gas storage facilities in 2008, including in related exploration and exploitation drilling.

Also, in cooperation with our foreign partners, we participate in a number of projects to create and operate underground gas storage capacities in Europe. See “—International projects and alliances for gas transportation—Gas storage in Europe.”

Investment in gas transportation infrastructure. For 2008, we have budgeted capital expenditures of RR237.2 billion in projects in our gas transportation and storage segment, including RR42.9 billion for the reconstruction and technical re-equipment of the UGSS.

Age and maintenance

Construction of our gas pipeline system commenced nearly 60 years ago with the first Saratov to Moscow pipeline, and most of our gas pipeline system was constructed from 1970 to 1990. The age of the pipeline system as of December 31, 2007 is shown in the table below.

<u>Since construction</u>	<u>Length</u>	<u>% of total</u>
	(km)	
Up to 10 years	17,714.3	11.2
11-20 years	40,508.8	25.6
21-33 years	62,832.8	39.7
Over 33 years	37,096.5	23.5
Total	158,152.4	100.0

We carry out annual capital repairs and preventive maintenance to improve the reliability of gas supply, technological and environmental safety and the efficiency of gas distribution. Maintenance work is preceded by gas pipeline inspections achieved through various means. In 2007, we inspected approximately 17.2 thousand km of pipelines with in-the-pipe probes and checked approximately 20.5 thousand km of trunk gas lines using electric measurements. As a result of these diagnostic checks, we undertook repairs of approximately 2,697 km of pipelines and 165 underwater crossings. We developed a pipe insulation program to repair the pipe insulation of trunk pipelines from 2004 through 2010. In 2007, we repaired the pipe insulation of 2,181 km of trunk pipelines under this program. As a result of such pipeline repairs and an improvement in our pipeline technology, the incidence of technical faults that involve interruptions or restrictions of gas supply dropped from 0.58

per 1,000 km of pipeline in 1985 to 0.11 per 1,000 km in 2007. We believe that the current level of diagnostic activities is optimal for the present usage of our pipeline system; however, we recently increased the level of our capital repairs as a result of the aging of extensive sections of gas pipelines that were put into operation in the 1980s and the early 1990s.

Gas transportation balance

Natural gas flows into our trunk pipelines from our own production, from the production of independent and central Asian producers, and from withdrawals from underground storage. Natural gas flows from our trunk pipelines to customers in Europe, the FSU and Russia and to our underground storage facilities. After accounting for operational requirements of the pipeline system and other technical factors, total inflows are equal to total outflows in a particular period.

The pipeline system consumed approximately 49.5 bcm and 52.0 bcm of the natural gas for the years ended December 31, 2007 and 2006, respectively, most of which was used to power the gas transportation system, and the remainder was accounted for by technological losses, including gas lost during maintenance of the pipelines. While we believe that our current volume of gas losses is low and that our levels of consumption of gas as fuel are satisfactory, in order to reduce our consumption of gas as fuel for the operations of the transportation system, we are replacing certain pipeline components with more technologically advanced designs that are more efficient and have improved environmental characteristics. We also install sections of the pipeline under repair using pressure and transfer gas from pipeline sections undergoing repair into active sections of the pipeline in order to limit gas losses during pipeline repair work.

The following table sets out data on the natural gas balance of the UGSS for the periods indicated (including natural gas in transit from central Asia).

	For the year ended December 31,		
	2007	2006	2005
		(bcm)	
Total gas transportation system inflow⁽¹⁾	706.7	717.8	699.7
System inflow.....	654.8	660.9	646.9
(including gas from central Asia).....	59.9	57.0	54.6
Withdrawals from Russian underground storage facilities	41.7	48.2	42.8
Decrease in gas transportation system reserves ⁽²⁾	10.2	8.7	10.0
Total distribution from gas transportation system⁽¹⁾	706.7	717.8	699.7
Deliveries to customers in Russia.....	356.4	352.0	339.8
(including gas from central Asia).....	0.1	0.1	0.1
Deliveries outside Russia.....	247.3	254.7	251.2
(including gas from central Asia).....	59.7	56.8	54.5
Addition to Russian underground storage facilities.....	43.0	50.4	46.3
Technological needs of gas transportation system	49.5	52.0	51.7
Increase in gas transportation system reserves ⁽²⁾	10.5	8.7	10.7

Notes:

- (1) These numbers do not include gas volumes withdrawn from foreign underground gas storage facilities and delivered outside Russia.
- (2) A significant extension of the gas transportation network involves maintaining a large volume of gas in the pipeline. This allows the system operators, increasing or decreasing the pressure at its different divisions, to accumulate excess gas in the pipeline for a certain period of time or to use it for extra supply. Thus, within a certain period, the shipment chain may transfer a lesser or larger volume of gas from one operator to another. The line shows the result of such operations as a total amount accumulated for a reporting period.

Natural gas transit through Ukraine and Belarus

All of the natural gas we export to Europe (except to Finland and in part to Turkey) is transported outside of Russia through pipelines maintained by Ukraine and Belarus, which is the reason for our dependence on these countries for natural gas transit to Europe. At the same time, Ukraine and Belarus are dependent on us for natural gas supplies. Our natural gas price disputes with Belarus in January 2004 and Ukraine in January 2006 resulted in brief suspensions of our gas supplies to customers in these countries. In January 2004, our transit of gas to the countries in Europe through the pipeline network in Belarus and the Yamal-Europe pipeline was not affected. In January 2006, due to unauthorized gas withdrawals by Ukraine, we used our maximum gas transportation capacities in other transit countries, withdrew gas from underground storage facilities in European countries and transported additional gas through Ukraine in order to fulfill our contractual gas supply obligations to European customers. In the period from March 3 to March 5, 2008, our reduction of gas deliveries to Ukraine by up to 50% because of debt settlement disputes did not effect our transit supplies to our European customers through Ukraine. See “Risk Factors-Risks Relating to Our Business—We are dependent on the links between our gas pipeline network and other gas pipeline networks that we do not control for the export of natural gas” and “—Marketing—The FSU”.

We pay transit fees for the use of the pipelines through Ukraine and Belarus. The negotiations of these fees and access to these pipelines are important elements of our export business, and transit fees are a significant element of the natural gas price to end users in Europe.

In June 2002 we concluded an agreement with Ukraine on the transit of at least 110 bcm annually through Ukraine to Europe through 2013. In December 2007, we entered into a new supplemental agreement on gas prices for Ukraine, which also determined the tariff for transportation of our gas through the territory of Ukraine. This supplemental agreement also established the same tariff for the transportation of central Asian gas supplied to consumers in Ukraine through our pipelines.

In December 2006, we signed an agreement for gas deliveries and transit to and through Belarus for the period from 2007 to 2011 and an agreement for establishing the terms of a Belarusian and Russian gas transportation joint venture. Pursuant to the agreement, the tariffs for transportation of our gas through the pipelines of Beltransgaz and through the Yamal-Europe pipeline were set for the period from 2007 to 2011.

Our projects to expand transportation routes, including the Yamal-Europe pipeline and the Blue Stream project, which are completed, the Nord Stream project and our agreement with Belarus to acquire a 50% interest in Beltransgaz in equal installments by 2010 are expected to reduce our dependence on Ukraine and Belarus for the transportation of natural gas to western Europe and Turkey. See “—Marketing—International projects and alliances in marketing—Beltransgaz privatization.”

Third-party access to the UGSS

Pursuant to Government Decree No. 858 dated June 14, 1997, we provide independent suppliers with access to the UGSS subject to the following requirements:

- availability of spare transport capacity for the time period proposed by the independent supplier;
- quality and technical parameters of the natural gas supplies;
- availability of input connections from suppliers and output connections to consumers and natural gas recovery and quality control stations; and
- availability of natural gas supplies and relevant customer demand for the proposed time period.

Independent gas suppliers transported approximately 120.5 bcm and 115.0 bcm, or 17.0% and 16.0%, of the natural gas supplied through the UGSS for the years ended December 31, 2007 and 2006, respectively. These amounts also included gas in transit from central Asia on behalf of other parties. The largest third-party user of the UGSS in 2007 and 2006 was our 50%—owned associated undertaking RosUkrEnergo, which transports natural gas from central Asia to Ukraine. RosUkrEnergo transported 52.7 bcm and 48.3 bcm of the natural gas for the years ended December 31, 2007 and 2006, respectively.

Our gas transport sales were RR41.74 billion, RR34.50 billion and RR25.05 billion for the years ended December 31, 2007, 2006 and 2005, respectively. A significant portion of this gas was sourced from central Asia, for which the transportation tariffs are unregulated.

Tariffs charged to unaffiliated third parties for the transportation of natural gas through our trunk pipelines are established by the FTS. Since August 1, 2006, the FTS has established a two-level tariff system consisting of (i) the payment for transportation of mcm per 100 km and (ii) the payment for the use of natural gas pipelines, which depends on the regions of input and output to and from the gas transportation system.

In 2006, the average two-level tariff was RR24.41 for 1 mcm for 100 km. Beginning March 1, 2007, the tariffs were increased by 15% and averaged RR29.65 in 2007. Beginning January 1, 2008, the tariffs were increased by 19% (by 22% compared to the annual average tariff), and the average tariff for 1 mcm for 100 km is expected to be RR36.18 in 2008.

Prior to January 1, 2005, gas purchased by Ukraine from central Asia was transported to the border with Ukraine by Eural Trans Gas (“ETG”) in accordance with agreements concluded in the summer of 2004 setting forth the terms and conditions of the cooperation between Russia and Ukraine regarding the supply and transit of natural gas through 2028. As of January 1, 2005, ETG was replaced as the operator for the transportation of natural gas purchased by Ukraine from central Asia by RosUkrEnergO. Since then, RosUkrEnergO has purchased central Asian natural gas for delivery to Ukraine. As of December 31, 2007, Gazprom owns 50% of RosUkrEnergO. RosUkrEnergO’s strategic activities are coordinated by a coordination committee, 50% of which consists of senior managers of Gazprom.

RosUkrEnergO purchases Turkmen gas from Gazprom Export on the basis of a contract signed for the period from 2005 through 2028. RosUkrEnergO has also concluded a contract with us on the transit of its gas through Uzbekistan, Kazakhstan and Russia to the border with Ukraine. The transit of this gas through Uzbekistan and Kazakhstan is on the basis of contracts that we have concluded with the gas transportation companies in these countries. See “Marketing-Cooperation with the central Asian countries in gas marketing.” Since the beginning of 2007, we have purchased and resold to RosUkrEnergO or other customers all of the natural gas currently produced and exported from Kazakhstan, Turkmenistan and Uzbekistan. In 2007, RosUkrEnergO delivered to and transported through Ukraine 58.3 bcm of natural gas.

Gas distribution networks

Gas distribution networks are designed to deliver gas from trunk pipelines to end-users. We are the leading gas distribution company in Russia. Our gas distribution assets are consolidated in our subsidiary OAO Gazpromregiongaz (“Gazpromregiongaz”). As of June 30, 2008, we held controlling interests in 168, and associated interests of at least 20% in 28, gas distribution entities in Russia, which operate over 500,000 km of gas distribution pipelines facilitating supply of more than 220 bcm of gas to end-users. In 2008, we intend to invest RR1.7 billion in reconstruction and technical upgrade of gas distribution networks in order to maintain their reliability and security.

We are currently implementing a gasification program for Russian regions, which will provide for the extension of our distribution pipeline network particularly to areas in Russia where natural gas is currently unavailable. For the period from 2005 to 2007, we allocated RR43.0 billion toward the implementation of this program, including RR20.2 billion in 2007. We estimate that the implementation of this program increased the average Russian gasification level from approximately 55% to approximately 62%. Our investments in gasification are allocated among Russian regions based on the following priorities: 100% payment for current gas deliveries; settlement of debts for previous gas deliveries; economic efficiency of gasification facilities proposed for construction; consumers’ readiness to offtake; throughput of connecting pipelines and gas-distribution stations; and assistance rendered by regional authorities in using natural gas as motor fuel.

The gasification program for Russian regions provides for the investment of RR23.1 billion in the construction of gas distribution networks in 2008. The investments allocated to regional gasification are included in the Mezhrefiongaz investment program, and are not therefore included in Gazprom’s investment program.

Gas transportation projects in Russia

SRTO-Torzhok pipeline. We are constructing a gas pipeline from the Urengoiszkoye field, in western Siberia, to Torzhok, one of the junctions in our trunk pipeline system. This pipeline will become part of an operating multi-line gas transportation system and enhance our ability to deliver

natural gas to customers in the northwestern region of Russia and to export gas through the Yamal-Europe pipeline. When completed, the pipeline is expected to be 2,200 km long and to include 13 compressor stations with total power of 968 MW, connected with our existing production and transportation infrastructure. The pipeline's annual projected throughput in various sections is 20.5 to 28.5 bcm. We plan to commission the pipeline in stages through 2011. As of December 31, 2007, we had completed the construction of 1,726.0 km of the linear part of the pipeline and commissioned seven compressor stations with total capacities of 513 MW. We plan to invest RR13.6 billion in the project in 2008.

Expansion of the gas transportation system in the Urengoi region. We have planned construction of an additional 400 km of pipelines and three compressor stations with total output of 272 MW in the Nadym-Pur-Taz region. As of December 31, 2007, 160 MW of total capacity of two compressor stations and 311.3 km of pipeline were commissioned. We expect this project to enable transportation of the increasing volumes of natural gas produced by independent gas producers in the Nadym-Pur-Taz region. The FTS has approved methodology for the calculation of tariffs for gas transportation through newly constructed sections of the gas transportation system. In particular, the methodology produces gas transportation tariffs that provide for the recovery of funds invested in new pipeline construction. We plan to invest RR11.5 billion in the project in 2008.

Pochinki-Izobilnoye-North Stavropolskoye underground gas storage pipeline. The natural gas pipeline from Pochinki to Izobilnoye and the North Stavropolskoye underground gas storage facility forms part of the Russia-Turkey natural gas pipeline system. This pipeline enables us to deliver natural gas from the Nadym-Pur-Taz region through the Blue Stream pipeline instead of more chemically active natural gas from central Asia. We put into operation the Petrovsk-Frolovo-Izobilnoye-North Stavropolskoye underground gas storage section of the pipeline, which is approximately 940 km long and includes six compressor stations with total capacities of 480 MW. The pipeline's projected throughput is 26.3 bcm. We are also considering construction of the pipeline section extending from Pochinki to Petrovsk, and our decision on the construction of that section will depend on the volume and timing of gas deliveries to the UGSS from the Yamal region.

Kasimovskoye PKhG-Voskresensk pipeline. This pipeline is designed to transport gas from the Kasimovskoye underground storage to the Circle pipeline in the Moscow region. We believe that this pipeline will allow us to increase gas supplies and improve their reliability in the peak consumption period in Moscow and the surrounding Moscow region. The pipeline is expected to be 204 km long with a projected throughput of 4.8 bcm. We plan to increase the capacity of two compressor stations. In 2007, 24 MW of capacity of the compressor stations and 126 km of the pipeline were commissioned. We plan to commission 36 MW of compressor station capacity and to make capital investments of RR5.4 billion into the project in 2008.

Gryazovets-Vyborg pipeline. The 917 km trunk pipeline from Gryazovets to Vyborg is designed to ensure gas supplies to consumers in northwestern Russia and to the Nord Stream pipeline. The project provides for the construction of seven compressor stations with total capacities of 697 MW, including the compressor station Portovaya on the shore of the Gulf of Finland. As of December 31, 2007, we commissioned 306.5 km of the pipeline. We plan to commission 163 km of the pipeline and to make capital investments of RR21.9 billion into the project in 2008.

Gas transportation system from the Yamal Peninsula fields. For the development of the Bovanenkovskoye field, which is expected to have a project production capacity of 115 bcm per year, with the long-term potential of being extended to 140 bcm per year after the commissioning of the Neocomian-Jurassic deposits of the field. We plan to construct multiple parallel pipeline systems for gas transportation from the Yamal Peninsula to the central regions of Russia. The system is expected to consist of large diameter pipes (1,420 mm) and operate at a higher pressure than our existing pipeline system. The length of the pipeline system is expected to be over 2,400 km, including the new 1,100 km gas transportation corridor from Bovanenkovo to Ukhta and a 1,300 km pipeline from Ukhta to Torzhok. The annual projected throughout of the Bovanenkovo-Ukhta section and the Ukhta-Torzhok section is expected to be 140 bcm and 81.5 bcm, respectively. We have started implementing the Bovanenkovo-Ukhta pipeline system construction project. In 2011, we plan to launch the first start-up complexes to develop the Cenomanian-Aptian layers of the Bovanenkovskoye field, with an annual output of at least 15 bcm, and the main gas pipeline system from Bovanenkovo to Ukhta. In 2008, we expect to spend RR26.2 billion for the construction of the pipeline system Bovanenkovo-Ukhta.

Murmansk-Volhov pipeline. The Murmansk-Volhov pipeline is designed to ensure gas supplies from the Shtokmanovskoye field to consumers in northwestern Russia and to the Nord Stream pipeline for exports. The pipeline is approximately 1,365 km long. The pipeline's projected throughput is 28-50 bcm depending on production volumes. We plan to put the pipeline into operation in 2013. We plan to invest RR1.7 billion for the research and development of the project and RR18.3 billion for construction work in the period from 2008 through 2010.

Sakhalin-Khabarovsk-Vladivostok pipeline. We have begun to design a gas transportation system in order to implement the decision of Gazprom's Board of Directors in April 2006 regarding the creation and development of the gas transportation system running between Sakhalin-Khabarovsk-Vladivostok. We expect to complete the initial stage of construction on the Khabarovsk-Vladivostok section of the pipeline by 2011. We are also considering acquiring gas transportation assets in the Khabarovsk region. In particular, we intend to purchase a number of gas transportation assets for RR17.4 billion, including gas distribution pipelines.

Gas supply system in the Irkutsk region. We have developed a general gas supply and gasification program for the Irkutsk region that has been approved by the regional authorities. In accordance with this program, we are constructing a system of gas trunk pipelines and gas distribution pipelines in the Irkutsk region. First supplies of gas to consumers in the region are scheduled for 2008. In December 2007, we put into operation a 27 km portion of the pipeline from Bratskoye field to the city of Bratsk. This pipeline is expected to satisfy local gas demand. We are also planning to construct a pipeline to Irkutsk and Angarsk. We have also signed an agreement with BP and TNK-BP pursuant to which we will acquire a 62.9% stake in RUSIA Petroleum, which is the license holder for the Kovykta field, and a 50% stake in the East Siberian Gas Company, which is implementing a regional gasification project for the Irkutsk region. See “—Projects and alliances in reserves and production-BP and TNK-BP.”

Sobolevo-Petropavlovsk-Kamchatsky pipeline. In September 2007, the Government of the Russian Federation proposed that we participate in the project to supply gas to the Kamchatka Region. The project envisages the development of several small gas condensate fields on the west coast of Kamchatka Peninsula and construction of the Sobolevo-Petropavlovsk-Kamchatsky pipeline as well as a distribution network in Petropavlovsk-Kamchatsky. The projected length of the Sobolevo-Petropavlovsk-Kamchatsky pipeline is 398 km, 97 km of which had already been constructed when construction of the pipeline was suspended in 2002. The designed annual capacity of the pipeline is 750 mmcm. The project is developed by OAO Kamchatgazprom (“Kamchatgazprom”), which is majority owned by the federal government. The Government has provided for the sale to us of its stake in Kamchatgazprom. At present we and relevant federal agencies are preparing for the purchase of Kamchatgazprom and are adjusting the project parameters. We plan to acquire the Sobolevo-Petropavlovsk-Kamchatsky pipeline, which is currently under construction, for approximately RR1 billion.

International projects and alliances for gas transportation

South Stream project

We are considering supplying gas to the European markets through the Black Sea by establishing a new south export route of Russian gas to Europe. Combined with current export routes, we expect this would increase the reliability and flexibility of Russian gas supplies.

In June 2007, on the basis of a strategic alliance with Eni, we concluded a memorandum of understanding regarding the South Stream project, a pipeline with an expected capacity of approximately 30 bcm p.a., for gas deliveries to Europe. The off-shore portion of the pipeline is expected to be approximately 900 km long and to pass under the Black Sea from the Russian coast to the coast of Bulgaria. In January 2008, to implement the project, the parties established a special purpose company South Stream A.G. Various routes through eastern and central Europe are being considered for the construction of the on-shore part of the pipeline. In particular, intergovernmental agreements have been signed with Bulgaria, Serbia, Hungary and Greece. The exact parameters of the project are expected to be determined upon completion of the feasibility study.

Nord Stream project

The Nord Stream pipeline is a conceptually new export route for Russian gas to Europe and one of our long-term strategic priorities. The Nord Stream pipeline will increase the reliability of our natural gas supplies and sales volumes to western European markets by diversifying our export flows. Because the pipeline will run offshore directly from Russia to Germany under the Baltic Sea, it will

avoid the political and economic risks related to the reliability of transit deliveries through third-party countries and reduce transit costs. The EU has designated the Nord Stream pipeline as a Trans-European Gas Network.

The Nord Stream pipeline is expected to have an annual capacity of approximately 55 bcm of natural gas. The pipeline is planned to extend undersea for approximately 1,200 km from Vyborg, Russia to Greifswald, Germany, and it will consist of two pipeline branches. We currently plan to commission the first branch of the pipeline in 2010 and the second branch in 2012.

In November 2005, we established Nord Stream, a joint venture in Switzerland that was initially named North European Gas Pipeline Company. Nord Stream is engaged in all stages of implementation of the Nord Stream pipeline project, including the design, construction, ownership and operation of the pipeline. We hold a 51% interest in this joint venture. Wintershall, a wholly-owned subsidiary of BASF, and E.ON Ruhrgas each own 20% of the joint venture and N.V. Nederlandse Gasunie (“Gasunie”) owns 9%. The project implementation costs are estimated to be approximately €7.4 billion. Approximately 30% of these investment costs are expected to be financed with shareholder contributions, while the remaining 70% are to be externally financed. Nord Stream is currently consulting with state authorities in countries involved in the construction of the pipeline in order to obtain appropriate governmental approvals.

United Kingdom Interconnector pipeline

In 1994, we acquired 10% of the capacity of the Interconnector pipeline, a pipeline connecting Belgium and the United Kingdom that allows for gas flow in both directions, as a result of our participation in Interconnector (UK) Limited. Our current annual capacities in the Interconnector pipeline are 2.0 bcm of natural gas from the United Kingdom to continental Europe. As a result of the third pipeline enlargement in October 2007, we obtained an additional 1.15 bcm of annual capacity, which increased our total annual capacity in reverse stream to 6.05 bcm annually.

We have concluded an agency agreement with our wholly-owned subsidiary, ZMB GmbH (“ZMB”), which leases interconnector pipeline capacity to our subsidiary GM&T, which uses the capacity to sell gas in the U.K. market. See “—Marketing—Western Europe.”

OMV

In January 2008, we signed an agreement with OMV confirming our intention to participate on a *pro rata* basis in the Central European Gas Hub (“CEGH”) currently owned by OMV. The CEGH, located at the border of Austria and Slovakia at the intersection of a number of large trunk gas pipelines, acts as a forwarding agent and renders control and optimization services in gas transportation. The parties expect to develop the CEGH into the largest gas hub in Europe. In addition, the parties have agreed to cooperate in the construction and use of strategic and operational underground storage facilities to be linked to the CEGH infrastructure.

Gas storage in Europe

We are currently expanding our access to underground gas storage facilities in European countries, which serve as transit territories for the bulk of Russian exports, while continuing to ensure reliable gas supplies.

WINGAS, a joint venture with Wintershall, in which we currently own a 50% less one share interest, owns Rehden, the largest underground gas storage facility in western Europe with storage capacity of about 4.2 bcm and daily production capacity of 45 mmcm. See “—Cooperation with Wintershall.”

In 2005, we established a joint venture with RAG AG, WINGAS and ZMB GmbH, a wholly-owned subsidiary of Gazprom Germania GmbH, to construct and operate the Haidach underground gas storage facility in northwest Austria. In May 2007, we completed the first stage of the underground gas storage facility with a capacity of approximately 1.2 bcm and a daily capacity of 12 mmcm. The second stage is expected to be completed in 2011, which is expected to increase the capacity up to 2.4 bcm. After the completion of the second stage of the project, the Haidach underground gas storage facility is expected to be the largest in Austria and the second largest in central Europe. The total investments of the parties in the project, including the first and the second stages, will be approximately €270 million. We own a 33% interest in the project. We expect to continue expanding the underground gas storage facility up to 3 bcm of active annual capacities and 30 mmcm of daily capacity.

In April 2008, we signed an agreement on cooperation with Verbundnetzgas AG to jointly build natural gas storage facilities in Germany and which contemplates the construction of the Peissen underground storage facility. Within the framework of the joint venture, the active storage capacity is expected to reach 520 mmcm, and daily capacity is expected to be 10 mmcm. Under the agreement, our participation is to be at least 50%.

In July 2005, we signed a lease contract with Vitol for access to 50% of Humbly Grove underground gas storage capacities in the southern part of England for a period of five years. This lease provides us with access to 151 mmcm of natural gas storage capacity. Beginning in 2007, our stake has increased up to 75% (227 mmcm).

In October 2006, ZMB acquired the right to explore Hinrichshagen in Germany to determine whether this geological structure is suitable for gas storage, and, if it is, to develop and utilize the structure as a natural gas storage facility. The estimated storage capacity of the facility is up to 5 bcm.

Strategic cooperation with CNPC

We concluded a strategic cooperation agreement with CNPC, which is controlled by the Chinese state, in October 2004. The agreement provides for cooperation in exploration, development, transportation and production of natural gas and crude oil; development of gas transportation and gas distribution networks in China; construction and exploitation of underground gas storage, and cooperation in other mutual projects, including in third-party countries.

In March 2006, Gazprom and CNPC established basic arrangements on natural gas deliveries from Russia to China, including possible terms, volume and routes of gas delivery, as well as pricing principles. Pursuant to the Eastern Program, two possible routes of gas supply to China, a western and an eastern route, have been identified.

The western route (also known as the Altai project) provides for the possibility of arranging the supply of natural gas from the fields of western Siberia through the western part of the Russian-Chinese border in an annual amount of up to 30 bcm. The eastern route provides for the possible supply of natural gas from western Russia to northeastern and central China and the region of Bohay Bay.

Cooperation agreement with Kogas

In October 2006, an agreement was signed between the Russian government and the government of the Republic of Korea regarding cooperation in the gas industry. This agreement sets forth conditions to the initiation of commercial negotiations between us and Kogas, a Korean gas company, regarding the terms and conditions of Russian natural gas delivery to Korea. The first deliveries of LNG to Korea were based on swap transactions. LNG deliveries to Korea are also expected from Sakhalin II. We are also exploring additional opportunities to supply natural gas from Russia to Korea.

Cooperation with Wintershall

In 1990, we entered into a long-term cooperation agreement with Wintershall, on the basis of which WINGAS was established in 1993. From inception, we held a 35% stake in WINGAS, and Wintershall held a 65% stake. In December 2007, we completed an asset swap agreement with BASF regarding the development of the Yuzhno-Russkoye field. Under the terms of the asset swap agreement, our interest in WINGAS increased to 50% less one share. See “Reserves and Production—Projects and alliances in reserves and production—BASF/Wintershall.”

WINGAS is a European energy provider active in natural gas trading and distribution in Germany, Belgium, France, Great Britain, Austria, the Czech Republic and Denmark. Since 1990, WINGAS has invested more than €3 billion in the development of its own natural gas transportation and storage infrastructure. The WINGAS gas transportation pipeline network, which is over 2,000 kilometers long, connects our major export gas flows going through Belarus and Poland (the Yamal-Europe pipeline) as well as through Ukraine, Slovakia and the Czech Republic to the growing markets in western Europe. It also facilitates natural gas supplies from the North Sea fields to the region. In Rehden in northern Germany, WINGAS has the largest natural gas storage facility in western Europe (with a working gas volume of over 4 bcm), and, together with our subsidiary ZMB, participates in central Europe’s second largest storage facility in Haidach, Austria. Additional natural gas storage facilities are currently being built with the participation of our subsidiary GAZPROM

Germany in Great Britain and Germany in order to secure the supply of natural gas in Europe. See “—Gas Storage in Europe.”

Central Asia

We have concluded long-term strategic cooperation agreements with respect to purchases of natural gas in central Asia. See “—Marketing—Cooperation with the central Asian countries in gas marketing.” In addition, we are considering joint projects to assess, modernize and increase the gas transport capacity in the region and to promote cooperation in gas transportation among Russia, Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan.

The gas transportation system “Central Asia—Center” connects Turkmenistan, Uzbekistan, Kazakhstan and Russia. It currently has an annual capacity of approximately 40-50 bcm, which is below its design capacity of approximately 68.8 bcm annually.

In May 2007, the presidents of Kazakhstan, Russia, Turkmenistan and Uzbekistan signed a declaration on mutual cooperation relating to the reconstruction of these existing gas pipelines, and the development of new transportation facilities in central Asia. Simultaneously, the presidents of Kazakhstan, Russia and Turkmenistan signed a declaration relating to a new export pipeline along the Caspian Sea coast. An intergovernmental agreement was signed in December 2007 on the construction of the Prikaspiysky pipeline which is expected to run through Russia, Kazakhstan and Turkmenistan. The agreement provides for the preparation of feasibility studies by KazMunaiGaz, Gazprom and GK “Turkmengaz” on their respective territories, to secure annual throughput of the pipeline up to 20 bcm.

Iran-Armenia pipeline

In March 2006, we entered into a 25-year agreement with the Armenian government on strategic principles of cooperation in the power industry. The agreement provides, in particular, that ZAO ArmRosGazprom (“ArmRosGazprom”) will acquire from the Armenian government a 40 km section of the Iran-Armenia pipeline and the fifth energy unit of the Razdan thermal power plant (“Razdan-5”), each of which is currently under construction. We expect to acquire these assets by the end of 2008. Furthermore, the agreement provides that the Armenian government will appoint ArmRosGazprom as the agent for the second section of the Iran-Armenia pipeline, which is approximately 197 km long, and for the completion and modernization of Razdan-5. We increased our interest in ArmRosGazprom to 53.4% (57.6% of voting shares) in November 2006 and to 59% (68% of voting shares) in April 2008.

Burgas-Alexandroupolis oil pipeline. Gazprom Neft is party to the construction project for the Burgas-Alexandroupolis oil pipeline, which is intended to be routed around Turkey, through the territories of Bulgaria and Greece. The expected length of the pipeline is 280-290 km, depending on the exact route of the pipeline, which has not yet been approved. The pipeline’s initial capacity is expected to be 35 million tons of crude oil per year and could potentially increase to 50 million tons per year. Preliminary estimates indicate that the cost of constructing the pipeline will be approximately U.S.\$1.2 billion.

The pipeline is designed to comprise an oil terminal in Burgas (Bulgaria) and Alexandroupolis (Greece), a trunk pipeline connecting these terminals with oil pumping stations, oil storage tanks and other related facilities. The pipeline is expected to provide a route for crude oil transportation from the ports of the Black Sea to the markets of Europe, the USA and the Asian-Pacific countries. Russia’s 51% interest in the project is managed by OOO Truboprovodny Konsortsium Burgas-Alexandroupolis, of which 33.33% is owned by Rosneft, 33.34% is owned by Transneft and 33.33% is owned by Gazprom Neft. Greece and Bulgaria hold the remaining stake in equal proportions. In January 2008, a shareholders agreement of the Russian-Greek-Bulgarian company was signed. In February 2008, a new company, Trans-Balkan Pipeline B.V., was registered in the Netherlands. The project phase provides for a feasibility study and the obtainment of all necessary approvals in Bulgaria and Greece.

Refining

Our natural gas and gas condensate refining operations primarily consist of the operations of our principal refining facilities owned by our wholly-owned subsidiaries, Gazprom Pererabotka, Gazprom Dobycha Astrakhan and Gazprom Dobycha Orenburg. Oil gas refining and petrochemical production is primarily conducted by Sibur Holding, a petrochemical holding company that is consolidated on our financial statements as of December 31, 2007. In April 2008, we approved the sale of a 50% plus one share interest in Sibur Holding. See “—Gas and petrochemical production.” Gazprom Neft processes most of our crude oil at the Omsk and Moscow Refineries and the refining facilities of Slavneft. As of December 31, 2007, our total annual processing and refining capacity was

52.5 bcm of natural gas, 20.7 bcm of oil gas and 48.1 million tons of unstable gas condensate and crude oil.

Processing of oil, natural gas and gas condensate

The following table sets out total hydrocarbon feedstock input we used at refining facilities for the periods indicated.

	For the year ended December 31,		
	2007	2006	2005
Natural gas, bcm	44.0	47.3	46.3
including Sibur Holding.....	10.7 ⁽¹⁾	13.8	12.4
Unstable gas condensate and crude oil, million tons.....	38.2	36.4	16.1
including Gazprom Neft.....	26.2	24.4	4.1 ⁽²⁾

Notes:

(1) Includes Sibur Holding's share (51%) of associated gas received for refining from the joint venture OOO Uragazpererabotka established in cooperation with TNK-BP in late 2006 based on Sibur Holding's Belozyorny and Nizhnevartovsky Gas Processing Complexes.

(2) From feedstock input in the fourth quarter of 2005 following the acquisition of Gazprom Neft by the Gazprom Group.

Our gas refining facilities process natural gas for pipeline transportation and stabilize gas condensate. As part of the refining process, these refining facilities engage in the removal of hazardous and corrosive substances from natural gas. They also produce a broad range of refined products based on extracted hydrocarbons.

The following table sets out information on our principal natural gas and gas condensate refineries as of December 31, 2007.

Refinery	Gas refining capacity (bcm/year)	Gas condensate refining capacity (million tons/year)	Hydrocarbons produced
Gazprom Dobycha			
Astrakhan			
Astrakhan Gas Refinery	12.0	7.3	Dry market-grade natural gas, natural gas-derived sulfur, motor gasoline, diesel fuel, furnace fuel oil, propane-butane and stable gas condensate.
Gazprom Dobycha			
Orenburg			
Orenburg Gas Refinery ⁽¹⁾	37.5	6.2	Dry market-grade natural gas, stable gas condensate, liquefied oil gas, wide fractions of light hydrocarbons ("WFLH"), natural gas-derived sulfur and odorants.
Orenburg Helium Plant ⁽¹⁾	15	–	Dry market-grade natural gas, gaseous helium, ethane, WFLH, liquefied oil gas and pentane-hexane fraction.
Gazprom Pererabotka			
Sosnogorsky Gas Refinery	3.0	1.25	Dry market-grade natural gas, liquefied oil gas, stable gas condensate, motor gasoline and technical carbon.
Urengoi Condensate Preparation Plant ⁽²⁾	–	12	De-ethanized gas condensate, motor gasoline, diesel fuel, liquefied oil gas, stable gas condensate and gas condensate distillate.
The Surgut Condensate Stabilization Plant ⁽²⁾	–	8	Stable gas condensate, motor gasoline, gas condensate distillate, diesel fuel, jet fuel, liquefied oil gas, pentanehexane fractions and WFLH.

Notes:

(1) The Orenburg Helium Plant conducts further refining of hydrocarbon feedstock from the Orenburg Gas Refinery.

(2) The main product of the Urengoi Condensate Preparation Plant is de-ethanized gas condensate, which is transported to the Surgut Condensate Stabilization Plant for further refining.

The following table sets out information on the principal natural gas processing plants of Sibur Holding, which primarily process oil gas, as of December 31, 2007.

Processing plant (% interest of Sibur Holding as of December 31, 2007)	Oil gas refining capacity (bcm/year)	Hydrocarbons produced
OOO Yugrugaspererabotka ⁽¹⁾ (51%)		
Nizhnevartovsky Gas Processing Complex	8.56 ⁽²⁾	Dry stripped gas and WFLH.
Belozyorny Gas Processing Complex	4.28	Dry stripped gas and WFLH.
OAO Yuzhno-Balyksky (100%).....	1.07	Dry stripped gas and WFLH.
OAO Gubkinsly GPK (100%).....	2.14	Dry stripped gas and WFLH.
OAO Noyabrsky GPK (100%) (Muravlenkovsky Gas Refinery).....	2.47	Dry stripped gas, WFLH, stable natural gasoline.
OOO Nyagangazpererabotka (100%).....	2.14	Dry stripped gas, WFLH, stable gas condensate, gasoline and technical propane.

Notes:

- (1) In 2006, Sibur Holding and TNK-BP established a joint venture, OOO Yugrugaspererabotka, based on Sibur Holding's Belozyorny and Nizhnevartovsky Gas Processing Complexes. TNK-BP secures long-term supplies of oil gas for refining for the joint venture. The parties receive refined hydrocarbons in proportion to their interest in the joint venture.
- (2) The Nizhnevartovsky Gas Processing Complex operates two of four production lines with an annual capacity of 2.14 bcm per line.

Gazprom Neft processes its produced crude oil mainly at the Omsk Refinery, which we believe is one of the most technologically advanced refineries in Russia and has a leading position in the industry in terms of volumes and depth of crude oil processing. Gazprom Neft believes that products produced at the Omsk Refinery enjoy a strong competitive position due to the short distance, and thus relatively lower transportation costs, between Gazprom Neft's production fields and the Omsk Refinery, the ability to deliver high-quality, unblended crude oil directly to the Omsk Refinery and the Omsk Refinery's modern refining facilities, which enable a high depth of oil refining. Gazprom Neft also processes crude oil at the Moscow Oil Refinery, in which it owns 38.8% of the voting shares, and at Slavneft's refineries, in which it and TNK-BP own equal interests. Gazprom Neft has access to the processing capacity of each of these refineries in proportion to its interest.

In January 2008, Gazprom and the Moscow Government signed a memorandum on cooperation which specifies certain principles for the management of the Moscow Oil Refinery. According to the memorandum, Gazprom Neft and OJSC Moscow Oil and Gas Company ("MNGK") representing interests of the Moscow Government and holding 50.84% of voting shares of the Moscow Oil Refinery (38.13% from the authorized capital) will jointly take management decisions on the major items of development of the enterprise and on key personnel appointments. This agreement is intended to enable the parties to modernize the Moscow Oil Refinery with a goal of producing high-quality oil products.

The following table sets out information on the major refineries of Gazprom Neft as of December 31, 2007.

Refinery and interest	Crude oil processing capacity (million tons/year)	Hydrocarbons produced
Omsk Refinery (100%).....	19.5	Motor and industrial gasoline, diesel fuel, jet fuel, furnace fuel oil, lubricants, aromatic hydrocarbons, liquefied hydrocarbon gases, oil bitumen and sulfur.
Moscow Oil Refinery (38.8%).....	12.15	Motor and industrial gasoline, diesel fuel, jet fuel, furnace fuel oil, oil bitumen, liquefied hydrocarbon gases and sulfur.
Slavneft (50%) Yaroslavnefteorgsintez.....	15.2	Motor and industrial gasoline, diesel fuel, jet fuel, furnace fuel oil, lubricants, aromatic hydrocarbons, sulfur, sulfuric acid and paraffin-wax production.
Yaroslavl Mendeleev Refinery.....	0.3	Industrial gasoline, diesel fuel, furnace fuel oil and lubricants.

The following table sets out the total production of our refining facilities for the periods indicated.

Hydrocarbons produced	For the year ended December 31,		
	2007	2006	2005
Dry natural gas (bcm)	35.8	38.1	37.5
including Sibur Holding.....	9.3 ⁽¹⁾	12.1	11.0
Liquefied oil gas (thousand tons)	5,497.0	5,288.0	4,870.9
including Sibur Holding.....	2,861.7 ⁽¹⁾	2,942.8	2,891
including Gazprom Neft ⁽²⁾	525.5	507.5	98 ⁽³⁾
Wide fractions of liquid hydrocarbons (thousand tons)	2,648.9	3,896.7	3,006.6
including Sibur Holding.....	2,061.4 ⁽¹⁾	3,015.3	2,463
Gasoline (thousand tons).....	7,518.7	7,218.8	3,125.7
including Gazprom Neft	5,376.9	5,060.0	883.0 ⁽³⁾
Jet fuel (thousand tons)	1,944.2	1,790.2	327.9
including Gazprom Neft	1,810.3	1,640.0	277 ⁽³⁾
Diesel fuel (thousand tons).....	9,510.7	9,056.4	2,954.8
including Gazprom Neft	8,081.4	7,613.5	1,314 ⁽³⁾
Stable gas condensate and crude oil (thousand tons)	3,653.0	3,792.8	3,728.7
Furnace fuel oil (thousand tons)	5,653.9	4,886.9	1,077.8
including Gazprom Neft	5,259.7	4,506.4	697 ⁽³⁾
Lubricants (Gazprom Neft) (thousand tons)	346.4	326.6	53 ⁽³⁾
Helium (million tons)	4,874.0	3,838.1	1,636.4
Sulfur (thousand tons).....	5,370.1	5,296.3	5,361.8
Ethane (thousand tons)	238.4	223.2	108.1

Notes:

(1) Including the 51% interest of Sibur Holding in OOO Yugragazpererabotka.

(2) Excluding propane-propylene fractions produced by the Moscow Oil Refinery.

(3) Volume of refining in the fourth quarter of 2005 following the acquisition of Gazprom Neft by the Gazprom Group.

Gazprom Neft's development strategy provides for the production of 70-80 million tons of hydrocarbons per year by 2020.

In 2008, we expect to spend approximately RR10.6 billion reconstructing and rebuilding our natural gas and gas condensate processing and refining facilities in our refining segment primarily in the development of our gas refinery in Astrakhan. In 2008, Gazprom Neft plans to invest RR6.6 billion in the construction and reconstruction of refining facilities.

Gas and petrochemical production

Sibur Holding was the principal producer of petrochemical products in the Gazprom Group as of December 31, 2007. According to management estimates, in 2007, Sibur Holding accounted for 46% of the production of synthetic rubber, 28% of the production of tires, 32% of the production of high-pressure polyethylene and 32% of the production of polypropylene in Russia. Sibur Holding's output is used in the production of plastics, high-octane gasoline and other products in the automotive, agricultural, construction and aerospace industries.

The following table sets out Sibur Holding's total gas and petrochemical production for the periods indicated.

	For the year ended December 31,		
	2007	2006	2005
	(thousand tons, except units of tires)		
Monomers and monomer fractions	1,997.9	2,122.5	1,848.0
Synthetic rubber	553.4	624.0	584.0
Polymers	500.8	483.9	462.8
Products of organic synthesis	1,134.6	1,109.3	989.6
MTBE	458.4	371.5	379.0
Mineral fertilizer and feedstock.....	1,598.1	1,360.4	1,482.0
Tires (thousands of units).....	13,581.7	12,790.4	13,735.0

Sibur Holding's capital expenditures in the refining segment are expected to amount to RR36.8 billion in 2008.

In February 2005, we adopted a strategic development program for AK Sibur that extends through 2011. Pursuant to this program, in July 2005, we established a new company, OAO AKS Holding. In November 2005, OAO AKS Holding was renamed OAO Sibur Holding. The charter capital of OAO Sibur Holding was paid by the shares and interests of petrochemical companies owned by AK Sibur and its subsidiaries and associated companies. As a result, Sibur Holding became the owner of AK Sibur's and its subsidiaries' petrochemical assets and the successor to operations previously conducted by AK Sibur. AK Sibur's and its subsidiaries' debt to us, which amounted to RR40.1 billion, was paid by our acquisition of Sibur Holding's shares. As part of the management motivation program, Gazprombank sold a 5% interest it held in Sibur Holding to affiliates of Sibur Holding Group in May 2007. In June 2007, Gazprom sold its 25% plus one share interest in OAO Sibur Holding to Gazfund. The price of the shares sold was based on an independent evaluation. Gazprombank controls the remaining 70% less one share interest in OAO Sibur Holding. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Acquisitions and Dispositions" for a discussion of the change of our interest in Sibur Holding.

In April 2008, the Board of Directors of Gazprombank approved the sale of a 50% plus one share interest in OAO Sibur Holding to Hidron Holdings, a company beneficially owned by five executives of Sibur Holding, for a total consideration of RR53.5 billion (U.S.\$2.2 billion). The consideration to be received from the sale is consistent with the independently appraised value of the interest. The preliminary agreement provides that the purchase price will be payable to Gazprombank in installments. The first installment of RR16.6 billion is to be paid in cash. An additional RR25.0 billion of the purchase price is to be treated as a loan to Hidron Holdings by Gazprombank on the transaction date, to be repaid three years after the transaction date. The remaining RR11.9 billion of the purchase price is payable to Gazprombank three months following the transaction date. The preliminary agreement provides that the outstanding indebtedness owed to Gazprombank will accrue interest at market rates. Under the agreement, Hidron Holdings will pledge all of the purchased shares to Gazprombank until all of this indebtedness is paid in full. The agreement also provides that Hidron Holdings will grant Gazprombank a put option pursuant to which Gazprombank will have the right to sell its remaining 20% interest in Sibur Holding to Hidron Holdings three years after the date of the consummation of the transaction at the same price per share as the original sale. Gazprombank also expects to pursue opportunities to sell its remaining 20% interest in Sibur Holding to further increase its return on investment.

The sale of the 50% plus one share interest in Sibur Holding to Hidron Holdings is subject to advance approval by the federal government body that is responsible for control over foreign investments in accordance with the recently enacted Federal Law No. 57 FZ "On Order of Making of Foreign Investments to the Companies of Strategic Importance for National Defense and Security"

(“Foreign Investment Law”). The Foreign Investment Law was enacted on May 7, 2008, but no legal requirements have yet been adopted to provide for the procedure for application for an approval stipulated by the Federal Law. We understand that Hidron Holdings intends to take all immediate actions to obtain the approval of the transaction from the federal government body upon enactment of such legal requirements.

Projects and alliances in refining

Karachaganak gas processing. Beginning in September 2002, KazRosGaz, in which we hold a 50% stake, has purchased approximately 7 bcm annually of natural gas produced at the Karachaganak field in Kazakhstan from the field operator, Karachaganak Petroleum Operating B.V. (“KPO”) to process this gas at our Orenburg gas chemical complex. We believe that delivering additional gas from Karachaganak will enable us to fully utilize the capacity of the Orenburg gas chemical complex and allow us to modernize the facility and to increase its capacity. In June 2007, we entered into an agreement with KazMunaiGaz establishing the principles for a joint venture to operate the Orenburg chemical complex as equal partners. KPO and KazRosGaz have also signed a 15-year purchase and sale agreement for Karachaganak gas. The annual volume of gas purchases will be approximately 16 bcm. It is expected that KazRosGaz will acquire gas from the operator of the Karachaganak gas field and will deliver it for processing to the joint venture.

Novy Urengoi Chemical Complex. Currently, we are implementing a project for the production of low density polyethylene at the Novy Urengoi Chemical Complex. The project was designed in cooperation with the contractors Salzgitter Anlagenbau and Linde. Salzgitter Anlagenbau has since been replaced by Tecnimot on the project. BASF has also participated in the project design. The Novy Urengoi Chemical Complex is being constructed near the city of Novy Urengoi in close proximity to gas fields containing ethane. Since 2006, we have raised approximately U.S.\$200 million of bridge loans to finance the required engineering activities and construction of the first-priority facilities of the complex. In the spring of 2008, we completed the construction of the first-priority facilities and began the preparation for installation of the main technical equipment. We expect to prepare all financing documentation and engineering, procurement and construction contracts in the third quarter of 2008. When completed, the Novy Urengoi Chemical Complex is expected to produce 400,000 tons per year of low density polyethylene in the course of processing 1.4 million tons of gas per year received as by-products from the Urengoi Condensate Preparation Plant. We also plan to produce 178,000 tons per year of natural gas liquids and 471,000 tons per year of methane at the complex. We plan to invest approximately RR5.0 billion into the project in 2008.

Salavatnefteorgsintez. In the second half of 2008, we intend to acquire control of OAO Salavatnefteorgsintez (“Salavatnefteorgsintez”) from NPF Gazfund. In May 2008, to facilitate the acquisition, Gazprom’s Board of Directors approved an increase in the authorized capital of Gazprom Pererabotka. Salavatnefteorgsintez is a leader in the oil and gas processing industry in Russia. Its annual processing capacity amounts to 7 million tons of crude oil and gas condensate. The company is one of the largest producers of butyl alcohol, gasoline, ethylene, propylene, polyethylene and other petrochemicals in Russia.

Associated gas refinery. The increased usage of associated gas is consistent with our national strategies of increasing our processing capabilities and decreasing our impact on the environment.

In February 2008, Gazprom Neft adopted a medium-term program for the utilization of associated gas with the goals of increasing its efficient use, mitigating environmental and tax risks and increasing revenues from the sale of additional volumes of associated gas and its refined products. We plan to invest RR17.6 billion to implement this program for the period from 2008 through 2010. In particular, the program provides for the construction of associated gas transportation facilities from the Ety-Purovskoye, Meretoyakhinskoye, Severo-Yangtinskoye, Chatylkinskoye, Kholmistoye, Yuzhno-Udmurtskoye, Ravninnoye, Vorgenskoye, Urmanskoye and Shinginskoye fields.

Marketing

We are the world’s largest exporter of natural gas. We export natural gas (as well as gas condensate, crude oil, oil products, liquefied oil gas and other refined products) mainly through our wholly-owned subsidiary, Gazprom Export. We also sell these products domestically to end consumers, including sales of natural gas through Mezhhregiongaz and our regional gas sales companies.

The following table sets out our natural gas sales volumes by geographical market for the periods indicated.

<u>Natural gas sales</u>	<u>For the year ended December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
		(bcm)	
Russia	307.0	316.3	307.0
FSU	96.5	101.0	76.6
Far Abroad.....	168.5	161.5	156.1
Total	572.0	578.8	539.7

According to the Gas Export Law, as the owner of the UGSS we have the exclusive right to export gas or liquefied natural gas produced in any hydrocarbon field within Russia. See “Risk factors—We encounter competition in our largest business, natural gas sales, from alternative fuel sources and other natural gas producers and suppliers in our export markets.”

The natural gas market

Natural gas is gaining an increasing share of the world energy market, in part because it is an effective and environmentally clean fuel. According to the BP Statistical Review of World Energy (June 2008) (the “BP Review”), global natural gas production has increased by approximately 32% from 1997 through 2007. Volumes of traded natural gas, including through pipelines and LNG, have also been increasing. These increases are attributable to the growth in natural gas-fired power generating capacity, an increase in the use of natural gas for residential consumption (particularly in central and eastern Europe), a decline in the attractiveness of nuclear power, and environmental considerations (which have reduced the attractiveness of fuels such as coal). In 2007, natural gas consumption accounted for approximately 24.8% of primary energy consumption in western Europe and approximately 22.4% in central and eastern Europe.

The following table sets out primary energy and natural gas consumption in our principal markets for 2007, 2002 and 1997 as well as the percentage of natural gas consumed as a proportion of primary energy consumption in such markets for such years:

	<u>2007</u>	<u>2002</u>	<u>1997</u>
	<u>(mtoe, except percentages)</u>		
Western Europe⁽¹⁾			
Primary energy consumption ⁽²⁾	1,657.4	1,622.4	1,547.2
Gas consumption	411.3	369.8	316.0
Gas consumption as a percentage of primary energy consumption.	24.8%	22.8%	20.4%
Central and eastern Europe⁽³⁾			
Primary energy consumption ⁽²⁾	239.8	227.9	247.1
Gas consumption	53.8	52.3	54.2
Gas consumption as a percentage of primary energy consumption.	22.4%	22.9%	21.9%
FSU (except Russia)⁽⁴⁾			
Primary energy consumption ⁽²⁾	316.2	292.0	284.6
Gas consumption	165.1	154.6	143.9
Gas consumption as a percentage of primary energy consumption.	52.5%	53.6%	50.6%
Russia			
Primary energy consumption ⁽²⁾	692.0	645.8	611.7
Gas consumption	394.9	350.0	315.4
Gas consumption as a percentage of primary energy consumption.	57.1%	54.2%	51.6%

Source: BP Statistical Review of World Energy (June 2008).

Notes:

- (1) Defined for the purposes of this table to consist of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Luxembourg, Republic of Ireland, Italy, The Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey and the United Kingdom.
- (2) Primary energy consumption comprises commercially traded fuels only.
- (3) Defined for the purposes of this table to consist of Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia.
- (4) Defined for the purposes of this table to consist of Azerbaijan, Belarus, Kazakhstan, Lithuania, Turkmenistan, Ukraine and Uzbekistan.

According to the BP Review, natural gas consumption in western Europe represented 14.1% of worldwide natural gas consumption in 2007 as compared to 14.1% in 1997. In the period from 1997 through 2007, the proportion of natural gas in primary energy consumption in western Europe rose from 20.4% to 24.8% and the consumption of natural gas increased from 316.0 mtoe (351.1 bcm) in 1997 to 411.3 mtoe (457.0 bcm) in 2007.

Far Abroad

We are currently the only supplier of Russian natural gas to Europe. We supplied 26.8% of the volume of natural gas consumed in Europe in 2007 according to the statistical survey CEDIGAZ, “2007 Natural Gas Year in Review. CEDIGAZ’ First Estimates” (May 2008). Germany, Italy, Turkey and France were our largest export markets in Europe for those periods. We are actively seeking to increase our European export efficiency and have entered into various joint ventures abroad, such as Wintershall Erdgas Handelshaus GmbH (“WIEH”) and WINGAS in Germany. See “—International projects and alliances for gas transportation.” These joint ventures allow us to capture a margin from sales of gas to industrial, energy and utility sectors as well as to households, in addition to receiving export proceeds from deliveries at the borders of the markets we serve. Since 2005, we have also participated in LNG trading transactions worldwide.

In the years ended December 31, 2007 and 2006, our gas sales to Far Abroad accounted for approximately 29% and 28% of the volume of natural gas we sold and for 57% and 60% of our natural gas net sales revenues for the periods indicated.

The following table sets out our natural gas sales volumes to Far Abroad countries for the periods indicated.

<u>Country</u>	<u>For the year ended December 31,</u>		
	<u>2007⁽¹⁾</u>	<u>2006⁽¹⁾</u>	<u>2005⁽¹⁾</u>
	(bcm)		
<i>Western Europe</i>			
Austria	5.4	6.6	6.8
Belgium	4.3	3.2	2.0
Finland	4.7	4.9	4.5
France	10.1	10.0	13.2
Germany	34.5	34.4	36.0
Greece	3.1	2.7	2.4
Italy	22.0	22.1	22.0
Switzerland	0.4	0.4	0.4
The Netherlands	5.5	4.7	4.1
Turkey	23.4	19.9	18.0
United Kingdom	15.2	8.7	3.8
<i>Central and eastern Europe</i>			
Bosnia and Herzegovina	0.3	0.4	0.4
Bulgaria	2.8	2.7	2.6
Croatia	1.1	1.1	1.2
Czech Republic	7.2	7.4	7.4
Hungary	7.5	8.8	9.0
Macedonia	0.1	0.1	0.1
Poland	7.0	7.7	7.0
Romania	4.5	5.5	5.0
Serbia	2.1	2.1	2.0
Slovakia	6.2	7.0	7.5
Slovenia	0.6	0.7	0.7
Other ⁽²⁾	0.5	0.4	—
Total⁽³⁾	168.5	161.5	156.1

Notes:

(1) Management estimates.

(2) Includes LNG sales and sales volumes under short-term contracts and exchange transactions in instances when it is difficult to determine the destination of the gas sold.

(3) Totals may not sum due to rounding.

Europe

We export natural gas to Europe mostly pursuant to long-term contracts, which generally include the following terms:

- price-setting mechanisms that are based on prices for alternative forms of energy such as oil products and, to some extent, coal;
- price adjustment clauses pursuant to which the formulae for determining the price of natural gas under the contracts is generally reviewed once every three years if market conditions have changed significantly;
- clauses that prevent unilateral termination except in instances of prolonged force majeure;
- extension clauses that provide for the automatic extension of the contract upon expiration unless one of the parties objects; and
- “take-or-pay” provisions that provide that: (i) off-takers who have purchased less than the minimum contracted-for annual volume of natural gas at year’s end are required to pay for some portion (but generally not all) of the shortfall; and (ii) such payment is credited to the off-taker if, in a subsequent year, the off-taker purchases more than the minimum contracted-for volume of natural gas.

We are a party to long-term supply contracts with major western European customers which have remaining terms of between 6 and 28 years.

We are paid in U.S. dollars and euro for the natural gas we export to Europe. Currently, between 40% and 45% of our Far Abroad net sales are denominated in euro.

In the past, certain of our contracts contained “destination clauses” that prohibited the re-export of our natural gas. In 2001, we received a request for information from the European Commission with respect to this clause in our contract with an Italian off-taker. As a result of discussions with the European Commission, we removed all destination clauses from existing contracts with EU companies, and in June 2005, the European Commission ceased its review of our contracts. We no longer include and do not expect to include such clauses in new contracts with EU companies.

Over the last three years, we have extended a number of our existing contracts and entered into new agreements for additional gas deliveries through the Nord Stream pipeline.

In June 2006, we signed an agreement with DONG Energy (“DONG”) to deliver gas through the Nord Stream pipeline to Denmark in an annual amount of one bcm (under this agreement, we have an option to provide a higher amount) for 20 years. In addition, in June 2006, our subsidiary, Gazprom Marketing & Trading Ltd. (“GM&T”), signed a gas supply agreement with DONG pursuant to which DONG will supply an annual amount of 600 mmcm of gas through GM&T, which intends to further sell it to the U.K. market beginning in 2007 for 15 years. Deliveries under this agreement commenced in October 2007.

In August 2006, we agreed to extend our four contracts with E.ON Ruhrgas through 2035, which had been previously scheduled to expire in 2020. Our total natural gas supply obligation under these contracts is a maximum of 20 bcm annually. In addition, we signed an agreement with E.ON Ruhrgas on basic delivery terms through the Nord Stream pipeline for 25 years beginning upon commissioning of the first branch of the pipeline in late 2010. The maximum delivery volume is 3.3 bcm annually, which may be increased to 4.0 bcm, subject to the availability of spare capacity.

In September 2006, we extended our contracts to supply gas to Austria through 2027, which had been previously scheduled to expire in 2012. In connection with the liberalization of the Austrian gas market and in view of the restructuring of OMV, its subsidiary EconGas GmbH (“EconGas”) has become a new importer of Russian gas to the Austrian market. According to the contracts, EconGas will purchase 5.1 bcm of natural gas annually, and two companies in which we maintain an ownership interest, GWH and Centrex Europe Gas & Energy AG, will purchase an additional 1.5 bcm and 0.3 bcm, respectively. By signing the new Austrian supply contracts, we have gained access to the Austrian gas market as GWH and Centrex conduct direct sales to customers in the Austrian market.

In November 2006, we entered into a strategic partnership agreement with Eni pursuant to which we are permitted to execute deliveries of Russian natural gas directly to the Italian market. Pursuant to the agreement for this purpose, Eni has assigned to us gas transportation capacity in the TAG gas pipeline beginning on April 1, 2007, and extending until the date that the transportation contract between Eni and TAG GmbH expires at the end of 2027. Since April 2007, we have directly

supplied the Italian market with Russian natural gas. Pursuant to the agreement, delivery volumes are to be gradually increased to approximately 3 bcm per year by 2010. In addition, the agreement provides for an extension of our existing gas delivery contracts through 2035. We are also currently discussing with Eni asset swaps through the implementation of joint investment projects in Russia and cross-investments by us in Eni's foreign production, refining, distribution and power assets.

In December 2006, our supply agreements with Gaz de France, which were to expire in 2012 and 2015, were extended through 2031. We have also signed an agreement with Gaz de France pursuant to which the Nord Stream pipeline would supply a maximum of 2.5 bcm of natural gas for 20 years. These agreements provide for the assignment of 1.5 bcm of natural gas under current contracts and respective transportation capacities by Gaz de France to Gazprom Export to operate on the French end-consumer market. In order to provide a diversified gas supply to the French market, Gazprom Export has entered into two long-term agreements with our subsidiary, GM&T, with maximum annual supplies totaling 1.1 bcm. The maximum annual supplies is expected to increase to 1.5 bcm beginning in October 2008. These agreements provide for the sale of gas at the French border and directly in the French market.

In December 2006, we extended our contracts for the delivery and transportation of natural gas in the Czech Republic with RWE Transgas through 2035. The maximum delivery volume will be 9 bcm beginning in 2010, and transit volume is to be 29.4 bcm per year. The agreement also provides for a decrease of transportation tariffs and transit rerouting in connection with the estimated commissioning of the Nord Stream pipeline.

In January 2007, we entered into a long-term gas supply contract with WIEE, which provides for annual natural gas supplies of 3 to 5 bcm from 2013 through 2030.

In April 2007, we entered into a long-term contract for the natural gas delivery with the Romanian company Conef Energy S.r.l. The annual delivery volumes under the contract are to amount to 2 bcm in the period starting from 2010 through 2030.

In October 2007, we entered into a long-term contract with Vemex s.r.o., in which we own a 33% interest, to supply natural gas to the Czech Republic. The contract provides for natural gas deliveries of up to 500 mmcm per annum from 2008 to 2012, with an option to extend for an additional five years.

We also sell a portion of natural gas delivered to Europe on gas trading boards, including in the United Kingdom, Belgium, The Netherlands and France. These transactions are conducted by our subsidiary, GM&T, and a joint venture, WINGAS. See “—Gas Transportation—International projects and alliances for gas transportation—United Kingdom Interconnector pipeline.” We receive natural gas for sale on the above-indicated markets through physical gas transportation and exchange operations with our traditional trading partners in Europe.

The table below shows the aggregate volume of natural gas we sold on the basis of gas trading boards at prices linked to gas indices, for the periods indicated.

	For the year ended December 31,		
	2007	2006	2005
	(bcm)		
Belgium, the United Kingdom, the Netherlands and France market sales.....	6.7	5.3	4.0

In October 2006, we entered into a long-term agreement (through 2018) to deliver 1 bcm per year to the U.K. gas market through the BBL Gas pipeline.

In June 2006, our subsidiary, GM&T, acquired the retail business of Pennine Natural Gas Limited (“Pennine”), which operates in the commercial and industrial sectors of the U.K. economy. Pennine's total gas sales were approximately 200 mmcm in 2007. To supply new retail customers and to make settlements with current customers, in July 2007, GM&T acquired another U.K. company, Natural Gas Shipping Services Limited (now known as GM&T Retail Ltd.). As a result, we expect to expand our sales volumes in this market sector.

European gas markets are undergoing significant restructuring. In particular, the currently effective Gas Directive has sought to deregulate and liberalize the EU gas market by introducing greater competition into the market and reducing gas prices for the end-user. See “—Competition—Western Europe.”

LNG

One of our foreign trade priorities has been the gradual implementation of our strategic plan for the production, maritime transportation and marketing of LNG. Currently, in the first stage of the development of our LNG business, we have performed occasional LNG spot purchase and sale transactions and swap transactions, exchanging our pipeline gas for LNG. Beginning in September 2005, LNG has been delivered to the United States, Great Britain, South Korea, Japan, Mexico and India. As of December 31, 2007, our total historical sales volume of LNG was approximately 0.75 million tons, or approximately 1.02 bcm.

The table below sets forth the volumes of our LNG transactions for the periods indicated.

	For the year ended December 31,		
	2007	2006	2005
	(thousand tons)		
LNG Sales	317	319	119

Consistent with our LNG strategy, we are seeking to deliver LNG to end-users in North America. In August 2006, Gazprom Marketing and Trading USA was established to carry out trading operations in the U.S. market, lease transportation and regasification facilities and purchase LNG. We plan to increase the volumes of our LNG spot trading and to develop medium-term swap transactions in Europe. In order to expedite entering the LNG market, we are also considering participating in existing third-party LNG projects. In April 2007, we acquired a 50% plus one share stake in the Sakhalin II project. See “Reserves and production—Projects and alliances in reserves and production-Sakhalin II.” In the later stages of our LNG strategy, we plan to implement LNG production projects in Russia and abroad and to create our own LNG marketing facilities. We expect that the Shtokmanovskoye field, with its production capacity of up to 95 bcm per year, should ensure gas deliveries for LNG production as well as gas deliveries for the Nord Stream pipeline. See “Reserves and Production—Development Activities—Shtokmanovskoye field.” We anticipate targeting countries of the Atlantic basin, including the U.S. and European countries as our primary markets for sales of LNG.

When implementing our strategy in LNG trading, we intend to purchase volumes of LNG from projects in which we participate and from other third-party projects for the purpose of future sales in various geographical markets.

We anticipate that our approach to the global LNG market will allow us to achieve geographical diversification, decrease our dependency on transit across the territories of third countries, which we expect will improve the reliability of our supplies to our traditional European customers, diversify sources of export proceedings, and enhance economic efficiency of export activities due to more flexible supplies on different foreign markets.

Russia

In the years ended December 31, 2007 and 2006, our gas sales to Russia accounted for approximately 54% and 55% of the volume of natural gas we sold and for 26% and 25% of our natural gas net sales revenues for the periods indicated.

Domestic market conditions. Among all domestic fuel resources, the Government currently regulates prices only for natural gas produced by us and our affiliates. The market determines prices for crude oil, coal and gas produced by independent producers. The regulated wholesale prices for gas are set below those which are economically viable without regard to the technological and ecological advantages of gas that ultimately lead to the imbalance between gas prices and those for alternative fuels. In December 2007, average gas prices of one toe for an end consumer were 11.1% higher than power station coal and 3.6 times lower than fuel oil.

The electricity sector is the main natural gas consumer in Russia. Our natural gas supplied to electricity generation companies accounts for up to 40% of the volume of our domestic natural gas supplies. Natural gas is also heavily used in the metallurgical, agro-chemical, construction and other sectors, as well as in households. Regulated prices are differentiated by consumers (household and industrial consumers), as well as by price bands based on the relative distance from the gas production region to the consumer. From January 1, 2005, the number of price bands was increased from seven to eleven, and from January 1, 2008 the number increased to up to 67 (by number of regions of Russian Federation we supply with gas). Wholesale prices for natural gas supplied to industrial consumers are higher than wholesale prices for household consumers.

The total price paid by industrial consumers includes: (i) the regulated wholesale price or contractual wholesale price within the price range established by Resolution No. 333 dated May 25, 2007 "On improvement of gas prices regulation" ("Resolution No. 333"); (ii) a tariff for transportation through the gas distribution network; and (iii) a marketing and sales services fee. We are paid the wholesale price established by the FTS. The transportation tariffs established by the FTS also vary by region, volume and category of consumers. Such tariffs are paid to the gas distribution companies that transport the gas through their networks to consumers; the marketing and sales services fees, which are also set by the FTS, are paid to the regional gas sales companies. The average wholesale gas price for industrial consumers from January 1, 2008 is RR1,699.2 per mcm. This is the average weighted price according to the planned volumes of natural gas delivery to such consumers in 2008.

The price paid by household consumers for natural gas is established by the administrations of the sub-federal regions and includes the regulated wholesale price for household consumers, a tariff for transportation through the gas distribution network and a marketing and sales services fee. The average wholesale gas price for household consumers weighted according to planned volumes of natural gas delivery to such consumers in 2008 is RR1,288.8 per mcm.

The following table presents the rates of changes in weighted average wholesale regulated natural gas prices for industrial and household consumers.

	<u>From Jan. 1, 2005</u>	<u>From Jan. 1, 2006</u>	<u>From Jan. 1, 2007</u>	<u>From Jan. 1, 2008</u>
Price increase	23.0% ⁽¹⁾	11.0%	15.0%	25.0%

Note:

(1) Includes a price increase of 8% for household consumers effective April 1, 2005.

The following table presents the weighted average wholesale regulated natural gas price for industrial and household consumers for the periods indicated.

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008⁽¹⁾</u>
Weighted annual average (RR per mcm) ⁽²⁾	1,013.4	1,132.1	1,301.5	1,636.0

Notes:

(1) Expected.

(2) Calculated as the combined weighted average prices to industrial and household consumers for the year indicated. Weighting is based on actual volumes delivered to each price zone for household and industrial consumers.

The Russian Energy Strategy for the period through 2020 (approved by Government Resolution No. 1234-p of August 28, 2003) provides for a gradual shift to the sale of gas at market prices to ensure self-financing by gas market participants and a more objective consumer valuation of natural gas.

On May 6, 2008, the Government agreed to set the following marginal domestic price increase rates for the period from 2009 to 2011:

	<u>2009</u>	<u>2010</u>	<u>2011⁽¹⁾</u>
	(Annual average increase from previous year, %)		
Average wholesale prices for all categories of Russian consumers (excluding households).....	19.6	27.7	40.0
Average regulated wholesale prices for household consumers....	25.0	30.0	40.0

Note:

(1) The actual increase rate for 2011 will be based on a level to achieve equal profitability from sales in domestic and export markets (taking into consideration customs duties and transportation costs), but the rate of increase will be limited to 40%.

Pursuant to Resolution No. 534, since November 2006, natural gas has been traded on the electronic trading floor of Mezhhregiongaz. Total gas volumes of up to 10 bcm were permitted to be traded on an experimental basis during 2006 and 2007 aggregated, of which we and independent producers were authorized to each sell up to 5 bcm at market prices. From November 2006 through January 2008, over 8.3 bcm of gas was sold on the electronic trading floor, approximately 4.9 bcm of which was sold by us. The trading results showed that price tracers traded on the average 37% higher

than the regulated price levels. The Russian Government adopted Resolution No. 851 dated December 10, 2007 “On Extension of the Experimental Electronic Gas Trades in 2008”, which permits us and our affiliates to sell up to 7.5 bcm of gas through electronic trades in 2008. In addition, we, together with our affiliates, were permitted to sell 15% more than independent producers.

In order to promote market principles in the domestic gas market, the Government issued Resolution No. 333. Pursuant to Resolution No. 333, for the period from July 1, 2007 through January 1, 2011, we are allowed to sell natural gas to specific categories of customers at prices negotiated with our counterparties from a defined price range. These principles are effective for new ultimate gas consumers and consumers purchasing natural gas volumes in excess of those stipulated in gas supply contracts for 2007. Pursuant to Resolution No. 333, the minimum price level of the price range is established as the regulated wholesale gas price set by the FTS. The maximum price level is defined as the regulated wholesale gas price level plus 60% in 2007, 50% in 2008, 40% from January 1, 2009, 30% from July 1, 2009, 20% from January 1, 2010, and 10% from July 1, 2010 through January 1, 2011. In 2007, gas sales to these categories of customers amounted to 6.2 bcm, with the average wholesale price 35% higher than the regulated price for industrial consumers. Pursuant to Resolution No. 333, the minimum price level is the regulated wholesale price set by FTS. In accordance with Resolution No. 333, the FTS has developed a price formula that provides equal profitability for gas supplies to the domestic and export markets and regularly publishes indicative prices calculated by this formula to enable gas market participants to anticipate pricing for the period after January 1, 2011. The indicative prices were 2.22 times higher than the regulated prices in all gas price bands in the fourth quarter of 2007.

Domestic sales. We sell our products domestically mainly through our wholly-owned subsidiary Mezhrefiongaz, which sells gas to regional gas sales companies in Russia. Regional gas sales companies contract directly with and collect payments from the end customers, including households.

Our acquisitions of controlling interests in various gas distribution companies have enabled us to capture the transportation tariffs that are payable to them in respect of the transportation services they provide. The gas distribution companies own and operate low- and medium-pressure pipelines that transport gas to end consumers. Regional gas sales companies receive a fixed price for supply and distribution services. As of June 30, 2008, we held controlling interests in 168, and associated interests of at least 20% in an additional 28, of the more than 330 gas distribution companies in Russia. In order to increase the efficiency of our regional gas distribution system, we currently plan to consolidate our shares in gas distribution companies under a holding company, Gazpromregiongaz.

We sign both one year and long-term gas supply contracts with our Russian customers. One-year contracts require customers to make full payment (excluding any advance deposits) for the natural gas they received on or before the fifteenth day of the month immediately following the month of delivery. The contracts may contain penalty terms for late payment and customers’ supplies of natural gas may be restricted and eventually stopped if non-payment continues. In addition, surcharges may be levied for gas supplied in excess of the contracted-for daily quotas (50% in winter and 10% in summer). On November 30, 2006, the Government permitted us, effective in 2008, to enter into contracts with our domestic industrial customers (i.e. customers other than household customers) containing terms of up to five years. Such long-term gas supply contracts provide for the full payment of the contracted gas volume, including in cases of partial failure to take gas (“take or pay” term).

Use of natural gas as a motor fuel

Natural gas is increasingly being used as a motor fuel. As of December 31, 2007, we owned a network consisting of 195 NGV-refuelling compressor stations. In 2007, we sold 293.6 mmcm of compressed natural gas through our NGV-refuelling compressor stations as compared to 265.8 mmcm in 2006.

Our program to develop our gasoline-station network provides for the construction of approximately 200 NGV-refuelling compressor stations by 2015. We have also approached potential European partners regarding a proposal to work jointly on the creation of a major network of NGV-refuelling stations in Europe.

Payments for gas deliveries in Russia

Gross accounts receivable for natural gas supplied to Russian customers amounted to RR56,128 million, RR47,751 million and RR41,150 million as of December 31, 2007, 2006 and 2005,

respectively (including Russian VAT, but excluding late payment charges). Most of our accounts receivable for natural gas supplied to Russian customers are in respect of customers in the Southern federal district of Russia (more than 50%). Despite the fact that there are still difficulties regarding gas payments in certain regions of the Russian Federation, such as Chechnya and Dagestan, we expect improvements as a result of our initiatives.

The FSU

In the years ended December 31, 2007 and 2006, our gas sales to FSU accounted for approximately 17% and 17% of the volume of natural gas we sold and for 17% and 15% of our natural gas net sales revenues during the same periods. We supply a significant proportion of the volume of natural gas consumed in the FSU countries. Ukraine and Belarus are the largest consumers of the volumes of natural gas we supply to the FSU.

The following table sets out our natural gas sales volumes to FSU countries for the periods indicated.

<u>Country</u>	<u>For the year ended December 31,</u>		
	<u>2007⁽¹⁾</u>	<u>2006⁽¹⁾</u>	<u>2005⁽¹⁾</u>
		(bcm)	
Armenia	1.9	1.7	1.7
Azerbaijan.....	—	4.0	3.8
Belarus	20.6	20.5	19.8
Estonia	0.9	0.7	1.3
Georgia	1.2	1.9	1.4
Kazakhstan.....	10.0	6.5	4.0
Latvia.....	1.0	1.4	1.4
Lithuania	3.4	2.8	2.8
Moldova	2.7	2.5	2.8
Ukraine.....	54.8	59.0	37.6
Total⁽²⁾	96.5	101.0	76.6

Notes:

(1) Management estimates.

(2) Totals may not sum due to rounding.

Sales to FSU countries are primarily made directly by Gazprom, though we also make sales through Gazprom Export and its subsidiaries. Currently, annual contract prices for the natural gas we supply to FSU countries are higher than the Russian domestic prices but lower than our prices in Europe. Gas deliveries to FSU countries are made pursuant to contracts and agreements with private or national companies of these countries.

In 2006, we significantly increased our natural gas sales volume to FSU countries, mainly due to the increase of gas we purchased in central Asian countries (primarily in Turkmenistan), which we re-sold to RosUkrEnerg for delivery, primarily to Ukraine. Until 2006, RosUkrEnerg had a direct gas purchase contract with Turkmenistan.

We are seeking to gradually increase the prices for sales in FSU countries to provide equal profitability (taking into account transportation costs) from sales in FSU and European markets. Due to our implementation of this price policy in the period from 2004 to 2007, our average natural gas sales price to the FSU countries increased from RR1,716.1 per mcm in 2005 to RR2,835.3 per mcm in the year ended December 31, 2007, or by 65%. However, our current annual contract prices for the natural gas we supply to FSU countries are still below the level that would provide equal profitability (taking into account transportation costs) from sales in FSU and European markets.

In January 2006, we signed an agreement with Naftogaz Ukraine establishing market terms for our gas business. In accordance with this agreement, we sell gas to RosUkrEnerg, in which we hold a 50% interest, and RosUkrEnerg subsequently sells the gas to Naftogaz Ukraine. In January 2006, in the framework of the agreement with Naftogaz Ukraine, we concluded with RosUkrEnerg a five-year contract for natural gas supply. We also signed corresponding contracts for transit of natural gas. See “Risk Factors—Risks Relating to Our Business—We are dependent on the links between our gas pipeline network and other gas pipeline networks that we do not control for the export of natural

gas” and “—Gas Transportation—Natural gas transit through Ukraine and Belarus.” We supply central Asian gas to RosUkrEnergO at prices allowing us to cover our gas purchase costs. RosUkrEnergO can also acquire our natural gas produced in Russia at prices providing us with a profitability equal to that of our sales in Europe (taking into account transportation costs). Gas from Central Asia supplied to Ukraine by RosUkrEnergO is paid for in cash.

As a result of debt settlement negotiations held in March 2008, we signed a co operation agreement with Naftogaz Ukraine. In particular, the agreement provides for our or our affiliated company’s delivery of natural gas to Ukraine in the amount of no less than 49.8 bcm in the period from March 2008 through December 2008 and our direct sales of gas to industrial consumers in Ukraine in the amount of no less than 7.5 bcm per year. On the basis of this agreement, Gazprom and Naftogaz Ukraine are currently negotiating a new scheme for further co operation in gas sales both to and in Ukraine.

In December 2006, we signed gas supply contracts with customers in Moldova and Belarus which provide for a gradual annual increase in sales prices for these countries to reach a profitability of sales similar to our European sales profitability from 2011. Our agreements provide for the natural gas supply to consumers in Moldova in volumes from 3.0 to 3.5 bcm from 2007 to 2011 and to consumers in Belarus in volumes from 21.6 bcm in 2008 to 22.5 bcm in 2011.

Our existing agreements with Baltic countries provide for an increase in gas supply from 5.3 bcm in 2008 to 7.5 bcm in 2010. From 2005 to 2007, we gradually increased export gas prices for sales to Baltic countries in order to ensure a price level equal to prices for western European customers. For the period from 2008 to 2010, we have agreed on a gas price formula which is based on the gas quality rating and consists of two components: a flexible component which accounts for fluctuations in current oil product price quotations and a fixed component which protects a supplier from falling energy prices.

We plan to gradually introduce western European contract terms into our contracts with FSU customers. Currently, we use formulas based on fuel oil and gas oil prices for determining gas prices for the Baltic countries. We have also agreed to a gradual transfer to a similar price mechanism for our gas sales to Belarus and Moldova beginning in 2008. We plan to use discounts to ensure the gradual transfer.

Debt settlement. The failure of a number of FSU customers to pay us for supplies of natural gas has resulted in substantial debts to us. As of December 31, 2007, 2006 and 2005, accounts receivable due from customers in FSU countries for sales of natural gas were RR97,103 million, RR101,038 million and RR55,070 million, respectively (including VAT but excluding charges for late payment). This included amounts due from customers in Ukraine of RR54,493 million, RR71,170 million and RR29,316 million, in Belarus of RR5,361 million, RR1,683 million and RR1,194 million, and in Moldova of RR29,081 million, RR24,330 million and RR19,654 million as of December 31, 2007, 2006 and 2005, respectively. We have taken specific measures to reduce arrears in payments for natural gas owed by FSU customers, including those discussed below.

In December 2006, we reached an agreement with Ukraine regarding the restructuring of its indebtedness in the amount of U.S.\$850 million by the end of 2009. In October 2007, we publicly notified Ukraine that we may reduce our natural gas supply to Ukraine if its indebtedness for gas sales in 2007 in the amount of approximately U.S.\$1.3 billion was not repaid. Ukraine repaid this indebtedness prior to November 2007. In early February 2008, the indebtedness of Ukraine for gas sales from central Asia through RosUkrEnergO amounted to U.S.\$1.07 billion, and in January and February 2008 we supplied gas of Russian origin to Ukraine in the aggregate amount of U.S.\$440 million. In the period from March 3 to March 5, 2008, we reduced our deliveries to Ukraine by up to 50% because of Ukraine’s failure to repay its debt obligations. As a result of debt settlement negotiations, on March 12, 2008, we signed a cooperation agreement with Naftogaz Ukraine which, among other things, provides for the creation of a gas trading subsidiary by Gazprom in Ukraine. In addition, in March 2008, an agreement was signed with Ukraine in which it agreed to pay us U.S.\$440 million by August 2008 for the gas we supplied in January and February 2008. As of July 11, 2008, Ukrainian indebtedness to RosUkrEnergO totaled approximately U.S.\$2.0 billion.

In 2004, Moldova (other than Transdnestria) started making full payments for current deliveries, and we are negotiating with respect to the repayment to us of indebtedness that has arisen in respect of past deliveries of natural gas. To date, our efforts to obtain repayment of the debt and assure full payments for current gas deliveries to the Transdnestria region of Moldova, which is under separate administration, have been unsuccessful. However, in the second quarter of 2007, Transdnestria began

to partially pay for the gas delivered to customers in the region in cash. We are limited in our ability to decrease gas deliveries to the Transdnestria region because doing so may adversely affect our deliveries to Balkan countries.

Cooperation with the central Asian countries in gas marketing

As part of our strategy to maintain our natural gas export sales while production from our mature fields declines, we have signed medium- and long-term agreements to purchase natural gas from central Asia. A significant element of our policy in central Asia is the development of the gas, oil and energy infrastructure in the region to ensure effective industrial cooperation, established during the time of the USSR. In this respect, we began to elaborate and implement a set of joint investment projects for production, processing and transportation of hydrocarbons in the central Asian region. See “—Reserves and production—Projects and alliances in reserves and production—Central Asia” and “—Gas Transportation—International projects and alliances for gas transportation—Central Asia.”

In December 2002, we signed an agreement with Uzbekneftegaz that provides for cooperation in purchasing natural gas in Uzbekistan, producing gas in Uzbekistan under the terms of a production sharing agreement, conducting diagnostic assessments of trunk pipelines, and modernizing gas transport capacity. The agreement provides, in particular, for long-term purchases of Uzbek gas from 2003 through 2012. We started purchasing gas from Uzbekistan in May 2003, and our purchases totaled 8.2 bcm in 2005 and 9.1 bcm in 2006. In 2007, we purchased 12.8 bcm of natural gas from Uzbekistan, including 3.3 bcm for further resale in the southern areas of Kazakhstan and the Aktubinsk region. We expect our annual purchases from Uzbekistan to increase up to a total of 15 bcm over the next several years.

In April 2003, the Presidents of Russia and Turkmenistan executed an agreement on cooperation in the gas sector for 25 years, which became effective on January 1, 2004. Pursuant to this agreement, our purchases from Turkmenistan could reach 70-80 bcm annually in the period from 2009 to 2028, provided that increases are made in available transportation capacity. In 2005, we procured from Turkmenistan approximately 4.5 bcm of gas (including gas supplied by the Turkmen side as payment for services rendered). In September 2006, we signed an agreement with Turkmenistan whereby Turkmenistan committed to supply us with 50 bcm of natural gas annually from 2007 through 2009 and an additional 12 bcm in 2006. We purchased 41 bcm of natural gas from Turkmenistan in 2006, substantially all of which was sold to RosUkrEnergo. We purchased 42.8 bcm in Turkmenistan in 2007. Since 2005, our gas purchases in Turkmenistan have been paid in cash. In November 2007, we concluded an amendment to the effective contract for gas supplies from Turkmenistan providing for a gradual gas price increase within two years and establishing market price principles for gas supplies from January 1, 2009 through 2028, when the contract expires.

We also purchase natural gas in Kazakhstan through our joint venture KazRosGaz. We process the gas at our Orenburg gas refinery and sell it in Kazakhstan and in other countries. See “—Refining—Projects and alliances in refining—Karachaganak gas processing.”

In March 2008, our partners from Kazakhstan, Uzbekistan and Turkmenistan notified us of their intention to begin supplying gas at European market prices starting from 2009.

The following table sets out the volumes of gas purchased by the Gazprom Group in central Asia for the periods indicated.

	For the year ended December 31,		
	2007	2006	2005
		(bcm)	
Volume of purchased gas	64.2	58.0	20.3

Although we expect the purchases of natural gas from central Asia to constitute a significant proportion of our total sales volumes in the coming years, we expect these purchases to decline in relative importance when we bring on stream new production fields after 2008, particularly when we bring the fields in the Yamal Peninsula on stream in 2011.

Long-term transit agreements are important for the development of the gas business in central Asia. We concluded medium-term agreements in September and November of 2005 (each of which expire on January 1, 2011) with AK Uztransgas for Turkmen gas transportation through the territory of Uzbekistan and AO Intergas Central Asia for the transportation of Turkmen and Uzbek gas through the territory of Kazakhstan. These agreements ensure the reliable supply of natural gas from

the region in increasing volumes to our customers. We are also engaged in activities to reconstruct and expand the natural gas transportation network in central Asia. See “—Gas transportation—International projects and alliances for gas transportation—Central Asia.”

Sales of liquid hydrocarbons and refined products

Our sale of liquid hydrocarbons and refined products in Russia is principally conducted by Gazprom, Sibur Holding and Gazprom Neft. Exports are made through Gazprom Export and Gazprom Neft Trading, a subsidiary of Gazprom Neft.

Export sales

The following table sets out export volumes of crude oil and gas condensate to Far Abroad and the FSU countries for the periods indicated (excluding sales within the Group).

<u>Company</u>	<u>For the year ended December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(million tons)		
Gazprom Neft.....	17.7	20.8	5.4 ⁽¹⁾
Gazprom, gas producing and refining subsidiaries	0.6	0.8	0.7

Note:

(1) Export volume for the fourth quarter of 2005 following the acquisition of Gazprom Neft by the Gazprom Group.

The following table sets out export volumes of refined products, excluding dry gas, to Far Abroad and the FSU countries for the periods indicated (excluding sales within the Group).

<u>Company</u>	<u>For the year ended December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(million tons)		
Gazprom Neft.....	13.3	13.6	3.1 ⁽¹⁾
Gazprom, gas producing and refining subsidiaries ⁽²⁾	5.9	4.4	5.0
Sibur Holding ⁽³⁾	2.9	2.6	2.1

Notes:

(1) Export volume for the fourth quarter of 2005 following the acquisition of Gazprom Neft by the Gazprom Group.

(2) Excluding methanol and helium.

(3) Excluding tires.

Export prices are set in response to market conditions. The decrease in Gazprom Neft’s crude oil export volumes in 2007 was due to the reallocation of oil streams toward refining and domestic supplies, which was driven by the increasing economic benefits of such allocation.

Gazprom Neft transports its crude oil for export primarily through Russia’s state-owned pipeline system, which is operated by Transneft. Access to this pipeline system in accordance with Russian legislation is regulated by the Russian Ministry of Industry and Trade. Capacity of the pipeline network system is generally allocated among all users in proportion to their quarterly supply volumes to the system and on the basis of their requests. The export capacities of Russian oil companies are limited by both the quantitative and qualitative technological capacities of Transneft. The existing Transneft traffic system does not allow us to export crude oil of the same quality as it is when it enters the system. Therefore, Gazprom Neft’s higher-quality light crude oil produced in the fields of western Siberia blends with the crude oil of other producers, which has higher density and a higher content of sulfur. The exported blend is called either “Urals blend” or “REBCO” and is sold at a lower price than “Siberian Light Crude Oil blend,” which is also called “SILCO.”

Gazprom Neft exports SILCO through Tuapse, where the delivery is made through a special pipeline for this type of crude oil. In the year ended December 31, 2007, Gazprom Neft’s sales of SILCO through Tuapse accounted for 7.9% of total export sales of Gazprom Neft.

The expansion of our distribution network abroad is one of our highest priorities. In 2006, OOO Gazprom Neft Asia (“Gazprom Neft Asia”), a subsidiary of Gazprom Neft, acquired a Kyrgyz company, ZAO Munai Myrza, which together with its subsidiaries owns certain oil and oil products marketing and storage assets. As of December 31, 2007, Gazprom Neft Asia sold oil products in Kyrgyzstan through 73 owned and 1 leased gasoline stations.

Sales in Russia

The following table sets out domestic sales volumes of crude oil and gas condensate for the periods indicated (excluding sales within the Group).

<u>Company</u>	<u>For the year ended December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
		(million tons)	
Gazprom Neft.....	4.3	1.4	0.5 ⁽¹⁾
Gazprom, gas producing and refining subsidiaries	3.0	3.0	2.3

Note:

(1) Sales volume for the fourth quarter of 2005 following the acquisition of Gazprom Neft by the Gazprom Group.

The following table sets out domestic sales volumes of refined products, excluding dry gas, for the periods indicated (excluding sales within the Group).

<u>Company</u>	<u>For the year ended December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
		(million tons)	
Gazprom Neft.....	13.3	11.8	2.6 ⁽¹⁾
Gazprom, gas producing and refining subsidiaries ⁽²⁾	6.4	6.1	5.9
Sibur Holding ⁽³⁾	3.4	3.3	3.6

Notes:

(1) Sales volume for the fourth quarter of 2005 following the acquisition of Gazprom Neft by the Gazprom Group.

(2) Excluding methanol and helium.

(3) Excluding tires.

We sell liquid hydrocarbon pursuant to long-term contracts with consumers at market prices. The price for liquefied oil gas for domestic needs is regulated by the Government. In accordance with the order of the FTS, since January 1, 2008 this price is set at RR4,500 per ton (excluding VAT). The sales prices for crude oil, stable gas condensate and refined products are set in response to market conditions.

As of December 31, 2007, Gazprom Neft sold oil products in Russia through a network of approximately 667 owned and 23 leased gasoline stations. Gazprom Neft is seeking opportunities to expand its existing network of gas stations by focusing on markets in Moscow, St. Petersburg, Nizhni Novgorod and other regions in central and western Russia, in Siberia and in the Urals region.

In 2007, OAO Gazpromneft Yaroslavl was created in connection with the division of property between OAO Slavneft-Yaroslavlnefteproduct and TNK-BP. After the process ends in 2008, Gazprom Neft will have 97 additional gasoline stations and seven oil bases in the Yaroslavskaya and Ivanovskaya districts with a total sales volume of approximately 250 thousand tons per year. In 2007, Gazprom Neft sold 2.3 million tons of petroleum products in the domestic market through its gasoline stations network as compared to 1.9 million tons in 2006.

International projects and alliances in marketing

Beltransgaz privatization. The Belarussian parliament has reorganized Beltransgaz, the Belarussian state-owned gas transportation and distribution entity, as a joint stock company. In May 2007, we entered into an agreement with the Republic of Belarus to acquire 50% of Beltransgaz for U.S.\$2.5 billion, payable in equal installments over a four-year period. All payments will be made in cash. In June 2007 and January 2008, we made two payments in the aggregate amount of U.S.\$1,250 million, for which we received a 25.0% total interest in Beltransgaz.

Naftna Industrija Srbije. In January 2008, Gazprom Neft entered into an agreement on the major terms and conditions of an acquisition of a 51% interest in the Serbian oil company Naftna Industrija Srbije ("NIS"). Pursuant to the agreement, the transaction is expected to be completed by the end of 2008. NIS is a joint-stock company engaged in the exploration, production, refining, distribution and marketing of oil and oil products as well as in the exploration and production of natural gas.

The State of Serbia currently owns 100% of the shares of NIS. NIS owns production assets (in 2007, crude oil production volume amounted to 719 thousand tons, gas production volume amounted to 276.7 mmcm and extractable hydrocarbon reserves as of December 31, 2007 amounted to 90 mboe); two refineries in Panchevo and Novy Sad (aggregate annual capacity amounts to 7.3 mtoe, actual volume of refined product amounted to 3.7 mtoe as of December 31, 2007); and marketing assets consisting of 470 gasoline stations in Serbia.

Joint ventures. In addition to our activities in Germany, we have established joint ventures to transport and market natural gas in other European markets. In certain countries, our subsidiaries or affiliates also distribute natural gas. We have begun to implement our strategy of acquiring equity participations in gas production, transportation and marketing which we have followed in Germany in other European markets.

The following table summarizes the main natural gas transportation and marketing joint ventures in which we participated in European markets as of December 31, 2007:

Country	Entity	Interest	Joint Venture Partner(s)	Description
Austria	Gas-und Warenhandels- gesellschaft mbH	50%	OMV, Centrex Europe Gas & Energy AG	Gas marketing, gas trading and general trading company
Bermudas	Sakhalin Energy Investment Ltd.	50% plus one share	Shell Sakhalin Holdings B.V. (Shell), Mitsui Sakhalin Holdings B.V. (Mitsui), Diamond Gas Sakhalin (Mitsubishi)	Oil and gas production and marketing, LNG transportation and marketing
Bulgaria	Overgas Inc. AD	50%	Overgas Holding AD	Gas marketing (wholesale and retail), construction and operation of gas transportation network
Czech Republic	VEMEX s.r.o.	33%	Czech entrepreneur club, Centrex Europe Gas & Energy AG	Gas marketing and distribution
Estonia	AO Eesti Gaas	37%	E.ON Ruhrgas, Fortum Corporation, Itera-Latvia, other shareholders	Marketing of natural gas, development of Estonia's gas transportation networks
Finland	Gasum Oy	25%	Fortum Corporation, E.ON Ruhrgas, the Republic of Finland	Gas transportation and marketing
France	FRAGAZ	50%	Gaz de France	Gas distribution and general trading activities
Germany	WIEH	50%	Wintershall	Gas marketing and delivery
	WINGAS	50% less one share	Wintershall	Gas transportation and delivery
	Wintershall Holding AG	49%	BASF	Hydrocarbon production in Libya
Greece	Prometheus Gas S.A.	50%	Dimitrios Copelouzos	Gas marketing and construction of gas transportation network
Hungary	Panrusgaz Zrt.	40%	E.ON Ruhrgas International AG, Centrex Hungaria Zrt.	Gas marketing and distribution
Italy	Promgaz SpA	50%	Eni	Gas marketing and distribution
	Volta	49%	Edison	Gas marketing and distribution
Latvia	Latvijgas Gaze	34%	Itera-Latvia, E.ON Ruhrgas, other shareholders	Marketing of natural gas and liquefied gas, development and modernization of Latvia's natural gas and services industries
Lithuania	Lietuvos Dujos	37%	E.ON Ruhrgas, the Republic of Lithuania, other shareholders	Marketing of natural gas, development of Lithuania's gas transportation networks

Country	Entity	Interest	Joint Venture Partner(s)	Description
The Netherlands.....	Blue Stream Pipeline Company B.V.	50%	ENI	Gas transportation
Poland.....	SGT EuRoPol GAZ S.A.	48%	PGNiG S.A., Gas-Trading	Transportation, construction, ownership and operation of the Polish section of the Yamal-Europe project
	Gas Trading S.A.	16%	PGNiG S.A., Bartimpex S.A., WIEH, Wenglokoks	Gas marketing, liquefied gas trading
Switzerland.....	Baltic LNG AG	80%	OAD Sovkomflot	Development and sale of LNG
	Gas Project Development Central Asia AG (Baar)	50%	Centrex Gas & Energy Europe AG	Production and development of oil and gas fields in central Asia
	WIEE	50%	Wintershall	Gas marketing and delivery
	Nord Stream	51%	E.ON Ruhrgas & Wintershall	Gas transportation across the Baltic Sea
	Shtokman Development AG	51%	Total, StatoilHydro	Design, construction and operation of the first phase of the development of the Shtokmanovskoye field
	Nord Stream AG	51%	E.ON Ruhrgas, Wintershall, Gazunie	Gas transportation and NEGP construction
	South Stream AG	50%	ENI	Feasibility study and operation of gas pipeline
Turkey.....	Bosphorus Gaz Corporation A.S.	40%	Tur Enerji A.S.	Gas marketing
	Turusgaz	45%	Botas International Ltd., Gama Industrial Plants Manufacturing and Erection Corp.	Gas marketing
United Kingdom....	Interconnector (UK) Limited	10%	ConocoPhillips, Distrigas, ENI, E.ON, Ruhrgas	Gas transportation and marketing

We also have ownership interests in companies located in Armenia, Belarus, Germany, Kazakhstan, Moldova, Montenegro, the Netherlands, Serbia, Ukraine, the United Kingdom and Uzbekistan.

Competition

The oil and gas industry is currently subject to several important influences that impact the industry's competitive landscape. These include the following:

Consolidation. In the past few years, the strategic and competitive landscapes of the oil and gas markets have been transformed by mergers and acquisitions, driven mainly by aspirations for greater profits and intensified competition to capture the growing potential of new, attractive business opportunities.

Technological advances. Technological innovations in the oil and gas industry have improved the efficiency in finding and developing hydrocarbon resources. Active and effective application of advanced technology has helped to improve geological exploration success rates, to increase field life and recovery rates from existing fields and to reduce full project cycle costs. In general, there is comparable access to technology across the industry, and to achieve our strategic and financial goals, we seek to compete by applying available technology to complex projects.

Environmental and social concerns. Oil and gas companies worldwide are also facing increasing demands to conduct their operations in a manner consistent with environmental protection and social goals. Investors, customers and governments are more actively following companies' performance with

respect to environmental responsibility, human rights and the development of alternative and renewable fuel resources. As a result, we expect competition to intensify in the markets we serve.

Europe

The table below shows the proportion of natural gas supply attributable to each supplier of natural gas to Europe in 2007:

<u>Country</u>	<u>% of European natural gas supply in 2007</u>
Russia (Gazprom Group).....	26.8
Norway.....	16.9
Algeria.....	9.7
United Kingdom.....	13.2
The Netherlands.....	12.7
Germany.....	2.8
Italy.....	1.8
Other external suppliers.....	8.6
Other internal suppliers.....	7.5

Source: CEDIGAZ “2007 Natural Gas Year in Review. CEDIGAZ’ First Estimates” (May 2008)

Natural gas supplies to Europe have outpaced demand in the past several years, and, according to specialists from the International Energy Agency, this trend will continue for several years. As a result, we expect our natural gas export volumes to Europe to be close to the minimum amounts defined in our export contracts over this period. Over the long term, however, production in European countries will continue to decline due to the depletion of explored natural gas reserves in the region and imports from Russia, Algeria and Norway are likely to increase in importance as a proportion of consumption.

European gas markets are undergoing significant restructuring. In particular, the Gas Directive seeks to deregulate and liberalize the EU gas market by introducing greater competition into the market and reducing gas prices for the end-user. See “Overview of the Russian gas industry and certain regulatory matters—Gas Directive.”

The implementation of the Gas Directive has facilitated the growth of short-term natural gas market and transactions volumes on liquid natural gas trading boards. We generally engage in these operations through our United Kingdom subsidiary, GM&T. We believe, however, that the majority of natural gas imported into Europe is likely to continue to be supplied under long-term export contracts, both because long-term contracts provide a stable supply of natural gas to European consumers during a period of declining local production and because long-term supply contracts are essential in enabling gas producers and exporters to finance investment in our natural gas exploration, development and transportation. We expect that the substantial gas reserves we own will support our competitive position as a major supplier of natural gas to the western European market. We also intend to build on our position and experience in spot trading to take advantage of the new opportunities that may develop in the course of the restructuring of European natural gas markets.

In connection with the changes in the European market that have been brought about by the Gas Directive, we have entered into a number of marketing joint ventures and we now have joint ventures in, among other countries, Austria, Finland, France, Germany, Hungary and Italy. See “—Marketing—International projects and alliances in marketing.”

Russia and the FSU

In Russia, we face competition from other crude oil and natural gas suppliers, in particular from independent suppliers in Russia. In the FSU, we face competition from independent suppliers in Russia and natural gas producing companies in Turkmenistan, Kazakhstan and Uzbekistan. Independent Russian suppliers have non-discriminatory access to existing UGSS capacity in Russia. The independent suppliers (the largest of which include OOO Itera Holding, Novatek, OAO TNK and ZAO TransNafta) have historically been, and continue to be, our competitors. In our view, this position is mainly a result of the Government’s policy of offering preferential terms for gas sales by such independent suppliers (for example, the low transportation tariff set by the FTS for

transportation of natural gas through the UGSS). Additionally, such independent suppliers can generally be more flexible than we can be with respect to the contractual terms and conditions that they can offer to customers in Russia and the FSU, as they are not bound by the same strict regulatory requirements applicable to us. See “—Marketing—Russia.”

In 2007, the independent suppliers accounted for approximately 120.5 bcm of natural gas transported through the UGSS, as compared to approximately 115.0 bcm in 2006. However, the competitive position of alternative suppliers is limited by the relatively small size of their reserves base and production volumes, the relatively high costs of production and their dependence on access to our transportation network.

Research and Development

We have pursued a policy of investing in research and development in a number of scientific and technical areas. In general, our research and development focuses on:

- economically efficient ways to develop fields in prospective production regions such as the Obstkaya and Tazovskaya Bays, the Yamal Peninsula, the Barents Shelf and the Kara Sea, eastern Siberia and the Russian Far East that are characterized by difficult climatic and geological conditions;
- maintaining production from existing fields with declining production;
- creating technology for the effective development of small natural gas fields and non-traditional resources, for example, methane from coal fields;
- creating technology to increase the efficiency of the development of fields rich in corrosive compounds and other additive components in hydrocarbon reserves;
- creating technology for the production, transportation and utilization of low-pressure natural gas reserves that remain in the earth during the final stages of gas field development;
- developing technology for the production and transportation of liquefied and compressed natural gas;
- developing a diagnostic system, technical funds and a new generation of technology and equipment for maintaining the dependability and effectiveness of the UGSS; and
- creating energy-saving technology and equipment, and developing a comprehensive energy saving scientific-technical program.

Electricity

We own a number of electricity assets, initially received in the course of privatization in order to support the functioning of the UGSS. Among these assets, as of December 31, 2007, we operated approximately 101 thousand km of electricity transmission lines as well as more than 1,830 electric power stations, each with a capacity of 500 kW or more. We produced approximately 1.5 billion kWh of electricity in 2007, as compared to more than 1.7 billion kWh and 1.5 billion kWh in 2006 and 2005, respectively. Our own production of electricity accounted for only 8.2% of our total consumption of approximately 17.9 billion kWh in 2007.

In 2006, in accordance with our electricity strategy, we established a power trading company and wholly-owned subsidiary, OAO Mezhhregionenergosbyt (“Mezhregionenergosbyt”). Mezhhregionenergosbyt supplies electric power to our other subsidiaries, including Gazprom Neft. Its sales of electric power in 2007 totaled 7 billion kWh. We anticipate supplies in 2008 to be over 23 billion kWh. We operate our electric power networks through OOO Gazpromenergo.

In May 2007, Gazprom’s Board of Directors approved our electricity strategy. Our strategic goal in this sector is to diversify tariff risks, optimize the balance of fuel in Russia and realize synergies with our gas business. In implementing our strategic target in Russia, we plan to increase the proportion of technologically advanced coal generation and improve gas generation efficiency. We expect that this strategy will meet the increasing energy demands of Russia.

The power industry reform in Russia enabled investors to participate in the restructuring, the power generation assets of RAO UES of Russia, a natural monopoly for electric power supply and a major producer of electric power in Russia, were spun off into TGKs, OGKs and other companies. TGKs primarily operate combined heat and power plants, which generate both electric and thermal

power and are constructed in accordance with regional principles. OGKs generally operate power plants, specializing mainly in electric power generation in different regions of Russia.

In 2007, Gazprom's Board of Directors agreed to sell to Gazfund 25% plus one share of Gazprom's interest in Sibur Holding and to buy from Gazfund shares constituting approximately 10% of Mosenergo. The value of the interest in Sibur Holding was determined in accordance with an independent evaluation. The value of the interest in Mosenergo was determined based on the results of trading of Mosenergo shares on the Moscow Interbank Currency Exchange. After subsequent acquisitions of additional shares of Mosenergo increasing our interest to 49.89%, on September 10, 2007, we filed an offer with Mosenergo to purchase shares of minority shareholders of the company. In November 2007, pursuant to this offer, we acquired a 3.57% interest in Mosenergo, bringing our total interest in Mosenergo to 53.47%.

Mosenergo is a key producer of electric power and heat in the Moscow region and is a major generation company in Russia in terms of total capacity. Mosenergo operates in the central region, which has increasing demands for gas supply. As of December 31, 2007, Mosenergo's generation capacity was 11,117 MW and its heating capacity was 34,297 Gcal per hour. In 2007, it produced 63.7 billion kWh of electric power and 65.5 million Gcal of heat.

In October 2007, OOO Russkie energeticheskie proekty ("REP"), acting on behalf of the Gazprom Group, acquired a 17.7% interest in OAO TGK-1 ("TGK-1") issued in a secondary share offering. TGK-1 is the third largest generating company in Russia in terms of installed capacity. In October 2007, Gazprom's Board of Directors approved the purchase of a 100% interest in REP as well as the TGK-1 shares owned by REP. We have received FAS approval to acquire a 50% interest plus one share in TGK-1. In February 2008, we entered into an agreement with UES to purchase an additional 28.7% interest in TGK-1. Under the agreement, the Gazprom Group expects to obtain a 46.4% interest in TGK-1. We plan to acquire a controlling stake in TGK-1 by making an obligatory offer to purchase its shares from its shareholders in 2009. TGK-1 operates in the northwestern region of Russia where gas consumption is growing rapidly. As of December 31, 2007, the installed generation capacity of TGK-1 was 6,278 MW and the heating capacity was 14,754 Gcal per hour. In 2007, it produced 26.1 billion kWh of electric power and 23.5 million Gcal of heat.

As a result of the first phase of the RAO UES reform which was completed in September 2007, TGK-5 and OGK-5 were spun off from RAO UES. GEK, our subsidiary which held a 10.5% interest in RAO UES, obtained a 5.00% interest in TGK-5 and a 5.27% interest in OGK-5. In the final phase of the RAO UES reform in June 2008, RAO UES was liquidated and its shareholders are to receive stakes in its subsidiaries proportionate to their participation in the capital according to a separation balance sheet. The agreements entered into in 2007 between certain shareholders of RAO UES who had filed application and the state were taken into account in allocating the interests of the subsidiaries of RAO UES to such shareholders. The Government and Gazprom, given our 10.5% interest in RAO UES, reached an agreement on the reallocation of shares of OGKs, TGKs and OAO HydroOGK. Pursuant to this agreement, shares will be transferred to OAO Tsentrenergoholding, a company spun off by RAO UES in which we will control an interest of nearly 100%, including the following approximate interests:

- 44.4% interest in OGK-2;
- 42.9% interest in OGK-6;
- 2.9% interest in OAO FSK UES;
- 5.3% interest in OAO TGK-11 (3.93% interest subject to secondary share offering planned for 2008);
- 5.2% interest in OAO TGK-12 (4.43% interest subject to secondary share offering planned for 2008); and
- 6.0% interest in OAO TGK-13 (4.82% interest subject to secondary share offering planned for 2008).

In addition, in October 2007, during a secondary share offering, ZAO Gazenergoprom-Invest ("GEP-Invest") acquired a 12.22% interest in OGK-2 for the benefit of Gazprom Group. In addition, in December 2007, GEP-Invest acquired a 17.13% interest in OGK-6 for the benefit of Gazprom Group. Currently, GEP-Invest is not an affiliate of Gazprom Group. Approximately 22% of the electric power produced by OGK-2 is generated from coal. As of December 31, 2007, OGK-2's generation capacity was 8,695 MW. In 2007, OKG-2 produced 48 billion kWh of electric power. Approximately 45% of the electric power produced by OGK-6 is generated from coal. As of

December 31, 2007, OGK-6's generation capacity was 9,052 MW. In 2007, OGK-6 produced 34.1 billion kWh of electric power.

In addition, we are considering opportunities to participate in OAO TGK-7 ("TGK-7") and, possibly, accumulate a controlling stake in the company.

In February 2008, we signed an agreement with SUEK fixing the major terms of the merger of our power and coal assets through the formation of a joint company. In June 2008, we came to an agreement with SUEK shareholders to stop these negotiations and pursue independent strategies in the electricity sector.

We are considering investing in European electricity power assets to increase our efficiency and improve our position in the European electricity markets.

In March 2006, we entered into an agreement with the Armenian government pursuant to which ArmRosGazprom, in which we hold 68% of the voting shares, will acquire and finalize the construction of Razdan-5. Razdan-5 is the fifth energy unit of the Razdan thermal power plant, a major thermal power plant in Armenia with current designed capacity of 1,100 MW. Upon the completion of the construction, a gas turbine with a 140 MW capacity will be put into operation at Razdan-5.

In addition, we own a 99.5% interest in ZAO Kaunaskaya Teplofikatsionnaya Elektrostansiya ("Kaunas Heating and Electrical Station"), which produces heat and electricity in Lithuania.

Our subsidiary, GM&T, incorporated in the United Kingdom and part of the GAZPROM Germania group of companies, has acceded to the Balancing and Settlement Code, which sets forth the rules pursuant to which an entity may buy, sell and transport electricity in the U.K. GM&T commenced transactions in the U.K. electricity market in 2006 and in the German and French electricity markets in 2007. We are currently planning to expand its presence to the electricity markets in the Netherlands, Belgium and Ireland.

In February 2007, we signed a memorandum of understanding with Soteg (Luxembourg) providing for the joint construction of a power plant in Eisenhüttenstadt, Germany. The anticipated capacity of the plant is 800 MW. The parties expect that the plant will be commissioned in 2010 or 2011. GM&T is expected to act as a gas supplier to the plant. Currently, Arcelor Mittal, the owner of the site for the power plant, is being considered to possibly join the project. We expect to retain our 50% interest in the project.

In February 2008, we signed a memorandum of understanding with E.ON to jointly build and operate a gas power station in the vicinity of Lubmin (Germany). A German landfall of the projected Nord Stream gas pipeline near Lubmin is expected to supply natural gas for the facility operation. The power station is planned to be rated at 1,200 MW. The parties agreed to set up a joint venture on an equal basis in order to implement the project and to make a final investment decision on the project in 2009.

Within the framework of our alliance, we are currently in discussions with Eni and Enel with respect to the acquisition of interests in European energy assets.

Other Activities

Because of the broad geographic range of our core business, the remoteness of our fields and the relatively undeveloped infrastructure in the regions in which we produce natural gas, we operate our own communications operations as well as various other activities, such as food processing and procurement and transportation (including auto transport and aviation), to support the activities of the employees who work in the exploration, production, and transportation of our gas. We also engage in various other activities that support our main business, including banking.

Gazprombank

Our subsidiary, Gazprombank, is Russia's third largest bank as measured by total assets and by capital as of December 31, 2007 under Russian accounting standards (according to Interfax), and services a majority of our banking needs (except for borrowings). Gazprombank's services comprise the entire range of commercial, investment and retail banking services, and its principal customers, other than gas companies, include customers in the petrochemical, metallurgy, atomic energy, construction, transportation, leasing and finance industries.

In addition, Gazprombank has interests in four Russian banks and two foreign banks. Gazprombank's regional network includes more than 36 branches, approximately 160 bank offices

and approximately 250 bank offices of subsidiary banks in Russia, Belarus and Armenia. A significant part of Gazprombank's funding is from us, and significant portions of its credit exposures are to us. Certain operations of Gazprombank are linked directly to our demands.

As of December 31, 2007, Gazprombank had total assets, as recorded in our consolidated financial statements prepared in accordance with IFRS (excluding Sibur Holding and Gazprom-Media Group), of U.S.\$34,326 million (U.S.\$28,888 million as of December 31, 2006), of which transactions with us accounted for U.S.\$1,608 million (U.S.\$3,265 million as of December 31, 2006), and total liabilities of U.S.\$28,907 million (U.S.\$24,217 million as of December 31, 2006), of which transactions with us accounted for U.S.\$6,366 million (U.S.\$4,629 million as of December 31, 2006). As of December 31, 2007 and December 31, 2006, Gazprombank's transactions with members of our Group accounted for U.S.\$2,864 million and U.S.\$3,191 million, or 9% and 14% of Gazprombank's total gross exposure, including assets and off-balance sheet commitments, respectively.

As of December 31, 2007, approximately 9% of Gazprombank's total loans outstanding was granted directly to our subsidiaries or to independent entities in connection with transactions with related parties (22% as of December 31, 2006), and 34% of its current accounts and deposits was owed to members of our Group (32% as of December 31, 2006). The decline in the relative volume of loans to members of our Group is attributable to Gazprombank's efforts to diversify its customer base and to comply with the CBR exposure limitations, which it had historically exceeded prior to 2005. As of December 31, 2004, Gazprombank was in compliance with the CBR exposure limitations and Gazprombank has remained in compliance with these requirements.

In October 2006, Gazprom's Board of Directors approved a resolution of Gazprombank shareholders to issue 33.3% of Gazprombank's charter capital to Gazfund for RR34.6 billion. In addition, in October 2006 Gazprom's Board of Directors approved the sale of a 24.9% ownership interest in Gazprombank by it to Gazfund for RR17.2 billion. The price of Gazprombank's shares acquired by Gazfund was determined in accordance with an independent evaluation. As a result of the above transactions, as of December 31, 2006, Gazfund acquired a 49.93% ownership interest in Gazprombank. In April 2007, Gazfund acquired an additional 0.07% ownership interest in Gazprombank from OOO Novye Finansovie Tekhnologii, the subsidiary of Gazprombank, for RR69.1 million, thus having increased its ownership interest in Gazprombank to 50% plus one share. In October 2007, Gazprombank registered as an open joint stock company. Although Gazfund is now deconsolidated, as of December 31, 2007, we continued to consolidate Gazprombank and its subsidiaries (including Sibur Holding and Gazprom Media) because we had cast the majority of the votes at the meetings of the Board of Directors of Gazprombank for such period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Acquisitions and Dispositions—Recent developments." In July 2008, at Gazprombank's general shareholders' meeting, Gazprom's representatives were not elected to a majority of the directorships of the Board of Directors of Gazprombank and no longer cast the majority of the votes at the meetings of the Board of Directors. We are currently assessing the impact of this event on the further consolidation of Gazprombank. We are also considering the possible sale of a portion of our remaining ownership interest in Gazprombank, but do not expect that our ownership interest will be reduced below a level of 25% as a result of any such sale.

Telecommunications

We operate an extensive internal communications network, which we maintain and operate in cooperation with the UGSS to help ensure the technical reliability and safety of the UGSS. The network consists of a ground-based network and alternate satellite communication channels. As of March 31, 2008, the ground-based network included 83,743 km of cable communication lines, 27,427 km of multi-channel radio lines, 867 automated telephone stations with a total capacity of 345,314 numbers and 25,968 radio stations. The satellite system consists of the "Yamal-100" and two "Yamal-200" satellites and 190 land-earth satellite communication stations. Our own requirements utilize approximately 11% of the total capacity of these satellites, with the balance being used by Government structures and leased by telecommunications companies. We have been expanding our telecommunications network in cooperation with our production and transportation projects, including the development of oil and gas fields of the Yamal peninsula and construction of the SRTO-Torzhok and Pochinki-Gryazovets pipelines as well as the Nord Stream pipeline.

Non-core businesses

In addition to the activities described above, we have investments in various other businesses that are not related to our core operations. Such investments mainly represent equity holdings which

we received in the course of privatization (e.g., interests in agricultural, civil construction and medical care enterprises) or acquired either through debt for equity swaps (e.g., stakes in regional utility companies) or directly for strategic and other considerations.

Gazprombank controls OOO Gazprom-Media Holding (“Gazprom-Media Holding”) and, through Gazprom-Media Holding, controls a number of operating media holding companies, including NTV, TNT-Teleset and NTV-Plus. Gazprom-Media Holding owns a leading Russian advertising vendor, certain radio stations, two publishing houses and certain television production companies. See “Management’s Discussion and Analysis of Financial Conditions and Results of Operations—Certain Acquisitions and Dispositions.”

Insurance

Exploration, production, refining and transportation of natural gas, gas condensate and crude oil is hazardous. Natural disasters, operator error or other occurrences can result in oil spills, blowouts, cratering, gas leaks and fires, equipment failure and loss of well control, which can injure or kill people, damage or destroy wells and production facilities, and damage property and the environment.

We obtain insurance mainly through an affiliated insurance company, Sogaz. Sogaz reinsures a substantial amount of its risks related to our property on international insurance markets, primarily through western reinsurance agencies.

Our general insurance coverage in respect of our operations provides for up to RR750 million (U.S.\$30.6 million) in coverage for a single event. At our principal natural gas processing plants (excluding plants owned by Sibur Holding and Gazprom Neft) insurance coverage amounts to RR3,000 million (U.S.\$122.2 million) for damage and RR1,500 million (U.S.\$61.1 million) for business interruption risks. At our compressor stations, insurance coverage is RR3,000 million (U.S.\$122.2 million) for each insured accident.

We carry five forms of insurance: (i) insurance of fixed assets owned or leased by Gazprom, including pipelines, compressor and gas distribution stations, gas processing plants, wells and production equipment and production and non-production buildings and equipment; (ii) insurance of the natural gas we transport through the UGSS in Russia; (iii) insurance of liabilities arising out of legal obligations to pay damages to third parties and environmental damages resulting from malfunctions in our industrial facilities; (iv) insurance of the work and materials used in conducting repairs at our production facilities and in realizing investment projects; and (v) insurance for the civil liabilities of automobile owners in accordance with legislation that came into effect during 2003. Our insurance premiums are set as a result of tender and are market based. Sogaz makes accident insurance reimbursements on the basis of the actual replacement cost, without taking into consideration depreciation of the damaged assets. We also began carrying “terrorism”, “catastrophic loss” and business interruption insurance in 2005. Since June 1, 2006, this “catastrophic loss” insurance has also covered our compressor stations.

Sibur Holding obtains property insurance of all risks through Sogaz. The insurance coverage of most of Sibur Holding’s subsidiaries amounts to U.S.\$100 million for a single event of damage to property or machinery failure. The insurance premiums are market based. Sogaz makes accident insurance reimbursements on the basis of actual replacement cost, without taking into consideration the depreciation of the damaged assets. Sogaz also provides insurance coverage to those of Sibur Holding’s enterprises which operate dangerous facilities. In 2007, Sogaz won the auction organized by Sibur Holding to determine insurance companies for purposes of mandatory insurance coverage of Sibur Holding’s enterprises operating dangerous facilities.

Gazprom Neft maintains insurance policies covering: (i) the production fixed assets of its production companies with a per incident coverage limit of U.S.\$60.0 million, subject to sublimits, for acts of “terrorism” (U.S.\$25.0 million), and machinery failures (U.S.\$5.0 million); (ii) the production fixed assets of refining companies with a per incident coverage limit of U.S.\$468 million (depending on the company), subject to sublimits, for acts of “terrorism” (U.S.\$50 million), and machinery failures (U.S.\$5.0 million); (iii) business risks (revenue losses and fixed costs caused by an interruption of operation) combined with property damage with a per incident coverage limit of up to U.S.\$1 billion for processing subsidiaries; (iv) export products, such as oil, refined and petrochemical products, with insurance coverage of up to U.S.\$100 million for each shipment; (v) risks relating to construction, reconstruction and modernization of fixed assets; (vi) certain risks required by applicable law to be insured against, including liabilities of enterprises exploiting dangerous production facilities

and civil liabilities of automobile owners; and (vii) medical insurance for employees. Currently, the possibility of obtaining accident and life insurance policies is being discussed. In addition, we are examining our treatment of insuring risks related to the construction, reconstruction and modernization of fixed assets. Unless specifically provided for in contracts, Gazprom Neft does not carry any non-mandatory insurance for third-party liabilities. Gazprom Neft obtains insurance (except for items (iv) - (vii) through the Sogaz insurance group. We only carry such insurance for risks faced by Gazprom and its principal subsidiaries, and as a result we do not have full insurance for all of our plant facilities. See “Risk Factors—Risks Relating to Our Business—We face certain operational risks which may result in losses and additional expenditures.”

Health, Safety and Environment

Our operations in Russia are subject to a number of environmental laws and regulations. These laws govern, among other things, regulations on the composition of emissions into the atmosphere, wastewater discharges and discharges to the sea, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. As we are a production company, environmental liability risks are inherent in our operations. See “Risk Factors—Risks Relating to Our Business—As an energy company we face significant environmental risks” and “Overview of the Russian Gas Industry and Certain Regulatory Matters—Russian Regulation—Environmental requirements.”

We also have an impact on the surrounding environment in the ordinary course of our business activities. However, we believe that our operations are generally in compliance with applicable environmental regulations.

We have developed and continue to improve a system for monitoring harmful emissions, water contamination, and the quality of air, water and soil in the Russian regions in which the UGSS infrastructure is located. In a number of regions, this system has become an integral part of the Russian Federation’s unified State Ecological Monitoring System. We conduct inspections of our subsidiaries in accordance with International Standard ISO 14000, a widely recognized set of environmental standards developed by the International Organization for Standardization, a non-governmental body composed of national standard-making bodies from over 140 countries. Our subsidiaries, ZAO Yamalgazinvest, Gazprom Dobycha Astrakhan and Gazprom Transgaz Ukhta, have demonstrated that their respective environmental protection management systems comply with International Standard ISO 14000 environmental requirements. We intend to conduct such an audit of our other principal subsidiaries and to confirm that our environmental protection management system as a whole is ISO 14000 compliant. For this purpose, in 2007 we conducted an audit of two additional subsidiaries, Burgaz and Kavkaztransgaz, and an audit of the environmental control system of Gazprom. To date, we have not had any serious accidents that have had a significant environmental impact.

Russian environmental legislation establishes a “pay-to-pollute” regime. In accordance with this regime, we make statutory payments to state authorities for environmental pollution. We paid RR196.5 million in 2004, RR323.1 million in 2005, RR502.7 million in 2006 and RR575.2 million in 2007. We have also paid environmental penalties of RR3.9 million in 2004, RR0.5 million in 2005, RR2.2 million in 2006 and RR16.4 million in 2007 (in nominal amounts) relating to environmental protection.

The Ministry of Natural Resources and Ecology of the Russian Federation has recently supervised environmental measures at many fields developed in the Russian Federation, and it has not identified any significant environmental violations with respect to Gazprom. However, certain issues were discovered in connection with the Sakhalin II project, and the Ministry of Natural Resources and Ecology of the Russian Federation subsequently approved the project’s environmental action plan. To date, no substantial environmental fines or other penalties have been levied with respect to the project.

We have made provisions in our consolidated financial statements prepared in accordance with IFRS for such environmental liabilities where it was probable that an obligation exists and the amount could be reasonably estimated. Such provisions have been made in accordance with what we believe is a reasonable and prudent policy that takes into account payments made in prior years, among other factors. However, in Russia in particular, federal, regional and local authorities may enforce existing laws and regulations more strictly than they have done in the past and may impose stricter environmental standards, or higher levels of fines and penalties for violations, than those now in effect. Accordingly, we are unable to estimate the future financial impact of our environmental

obligations. For example, the Decision of the Government of the Russian Federation of July 1, 2005, “On Amending Annex No. 1 to the Decision of the Government of the Russian Federation No. 344 of June 12, 2003,” increased statutory payments for methane emissions by 1,000 times. Accordingly, we are unable to estimate the future financial impact of our environmental obligations with a high degree of certainty. However, we do not expect these environmental obligations to have a material adverse effect on our future financial condition.

Litigation and Investigations

We are from time to time the subject of legal proceedings and other investigations in the ordinary course of our business. There are no legal or arbitration proceedings (including none that are pending or threatened of which we are aware) nor have there been any legal or arbitration proceedings in the last 12 months which have had or may have a significant effect on our financial position or results of operations.

In May 2001, Rosgazifikatsiya filed a claim against ZAO SR-DRAGA (“DRAGA”) (our share registrar) to recover damages in the amount of RR717.2 million as a result of the alleged negligent performance of its obligations as a registrar in relation to one specific share transfer of 50 million of our shares that were owned by Rosgazifikatsiya in 2000. Under Russian law, we are liable for the actions of our registrar and accordingly were joined as a co-defendant to the claim. The court of first instance granted the motion of Rosgazifikatsiya and ordered DRAGA to pay RR539 million in settlement of the claim. After appeals by DRAGA, the Federal Arbitration Court of the Moscow District overturned the decision of the court of first instance. Rosgazifikatsiya appealed the decision to the Supreme Arbitration Court, which remanded it for a new review in the court of first instance. Rosgazifikatsiya filed a motion to increase the damages to RR1,459 million. On May 8, 2003, the Moscow City Arbitration Court rejected Rosgazifikatsiya’s appeal with respect to Gazprom, and ordered DRAGA to pay damages of RR1,459 million. Rosgazifikatsiya subsequently abandoned this suit. On appeal by the Ministry for Property Relations, the Supreme Arbitration Court remanded the matter for further review in the appellate court. On August 13, 2004, the appellate court rejected Rosgazifikatsiya’s claim for damages. On November 30, 2004, on appeal by the Federal Agency for Federal Property Management (the former Ministry for Property Relations), the cassation instance of the arbitration court remanded the matter to the court of first instance for review, and on January 17, 2005, the Moscow City Arbitration Court dismissed the case. On March 24, 2005, the ninth arbitration appellate court rejected the appeal of the Federal Agency for Property Management on the basis of the decision of the Moscow City Arbitration Court that had rejected Rosgazifikatsiya’s claim. In October 2005, the Federal Arbitration Court of the Moscow District approved the previous court decisions. The Supreme Arbitration Court subsequently cancelled all prior decisions, which terminated ongoing arbitration proceedings and remanded the case to the Moscow City Arbitration Court. On June 6, 2008, Gazprom filed a motion with the Moscow City Arbitration Court to suspend the case, pending approval of its application to the Constitutional Court of the Russian Federation to render unconstitutional p. 4 Art. 44 of the Federal Law “On Joint-Stock Companies,” on which Rosgazifikatsiya’s claims are based. The Moscow City Arbitration Court granted the motion.

In May 2005, Rosgazifikatsiya filed a complaint against Mr. Plotnikov, DRAGA and OUL DRS (“DRS”) concerning the collective recovery of RR477,680 thousand of losses related to the theft from the claimant of 50 million of Gazprom’s shares. On November 15, 2005, Gazprom was added to the dispute as defendant. The Cheremushkinsky District Court of Moscow, in a decision rendered December 15, 2005, dismissed this case. The Moscow City Court, in a decision rendered March 14, 2006, canceled this decision and forwarded the case for fresh consideration in the court of original jurisdiction. Gazprom appealed the decision to the Presidium of the Moscow City Court. On May 31, 2006, in the exercise of its supervisory power, the Moscow City Arbitration Court rejected Gazprom’s appeal. Rosgazifikatsiya increased its damages claim to RR14.39 billion during the new hearing in the court of first instance. On September 6, 2006, the Cheremushkinsky District Court of Moscow partially satisfied Rosgazifikatsiya and ordered Mr. Plotnikov and DRS to jointly pay RR4.17 billion. The court rejected the claims against DRAGA and Gazprom. Mr. Plotnikov, DRS and Rosgazifikatsiya filed cassation appeals to this decision. On February 27, 2008, the Moscow City Court reviewed the cassation appeals and upheld the decision of the Cheremushkinsky District Court. Rosgazifikatsiya filed a motion with the Cheremushkinsky District Court of Moscow to reconsider the September 6, 2006 decision based on new circumstances. On May 30, 2007, the Cheremushkinsky District Court of Moscow denied Rosgazifikatsiya’s motion.

On October 20, 2004, the Federal Antimonopoly Service (the “FAS”) issued a decision finding that Gazprom, Mezhrefiongaz and Surgutgazprom had prevented independent companies from accessing the gas distribution market and had discriminated against independent gas development and production companies. The FAS determined that Gazprom had violated the terms of the procedure for review of independent gas developers’ requests for access to our gas transportation system and had instituted a disproportionate limitation on their access to the system. The FAS ordered us to cure performance. Gazprom appealed the decision to the Moscow City Arbitration Court, and in June 2005 we abandoned the claim.

On December 14, 2004, Yukos commenced bankruptcy proceedings in the U.S. Bankruptcy Court for the Southern District of Texas (the “U.S. Bankruptcy Court”), and simultaneously filed its original complaint against several defendants, including the Russian Federation and one of our former subsidiaries. On February 11, 2005, Yukos filed its amended multi-billion dollar complaint, adding Rosneft and Gazprom to the list of the defendants and alleging, among other things, violations of the temporary restraining order entered by the U.S. Bankruptcy Court on December 16, 2004. On February 24, 2005, the U.S. Bankruptcy Court concluded, based on lack of personal jurisdiction and other circumstances, that the bankruptcy case should be dismissed. On March 28, 2005, Yukos filed a motion to dismiss the adversarial proceeding against us and other Russian defendants, without prejudice to its ability to reinstitute proceedings.

On April 14, 2005, the Moscow Territorial Department of the Federal Financial Budget Monitoring Service fined us U.S.\$34.1 million and U.S.\$27.7 million with respect to two alleged violations of Russian currency regulations by not registering foreign currency profits paid to us by Naftogaz Ukraine in a timely manner. On May 31, 2005 and June 23, 2005, the Moscow City Arbitration Court determined that the decisions of the Moscow Territorial Department of the Federal Budget Monitoring Service were illegal. Currently, no appeal has been filed by the Moscow Territorial Department of the Federal Financial Budget Monitoring Service.

On April 27, 2005, the FAS issued a decision finding Gazprom, Mezhrefiongaz, OOO Kirovregiongaz and OOO Permregiongaz liable for having violated antimonopoly legislation by unreasonably limiting the supply and delivery of natural gas to a customer in the Kirov region, attempting to impose unreasonable terms with respect to the deliveries of natural gas and ceasing its sales. The FAS ordered the defendants to remedy these violations. On November 18, 2005, the Moscow City Arbitration Court ruled that the FAS decision and order were invalid. The appellate court and cassation instance of the arbitration court on May 2, 2006 and August 17, 2006, respectively, confirmed the decision of the Moscow City Arbitration Court.

On June 7, 2005, Moncrief Oil International, Inc. (“Moncrief”) filed a lawsuit in the United States District Court for the Northern District of Texas against Gazprom and several of its subsidiaries seeking to reestablish its rights with respect to an alleged joint venture for the development of the Yuzhno-Russkoye field and/or Severneftegazprom or, in the alternative, to recover monetary damages of up to several billion dollars. Gazprom has never entered into or approved any agreements with Moncrief, nor has it consented to the resolution of any disputes with Moncrief in any United States court. On March 21, 2006, upon Gazprom’s motion, the court dismissed the lawsuit based on lack of personal jurisdiction. On April 10, 2006, Moncrief appealed the court’s decision. Subsequently, the plaintiff filed the complaint, and Gazprom filed its response. There was a hearing on February 6, 2007, and, on March 13, 2007, the court dismissed Moncrief’s appeal. On March 26, 2007, Moncrief filed a motion to reconsider the prior decision by the Court of Appeal. On April 19, 2007, Gazprom filed a response to Moncrief’s motion. On July 25, 2007, the Court of Appeal dismissed Moncrief’s motion. The term for filing an appeal in the United States Supreme Court has expired.

In addition, in July 2006, Moncrief filed a lawsuit in the District Court of Frankenthal, Germany against BASF and Wintershall, Gazprom’s partners in the development of the Yuzhno-Russkoye field, alleging that BASF and Wintershall fraudulently forced Gazprom to violate its obligations to the plaintiff with regard to the joint development of the field. On July 5, 2007, the District Court of Frankenthal issued a written decision dismissing the lawsuit in its entirety based on lack of evidence.

On April 4, 2008, Moncrief filed a lawsuit against Gazprom, Gazprom Marketing & Trading USA and Pace Global Energy Services LLC in the United States District Court for the Northern District of Texas. The lawsuit alleges the defendants interfered with contractual relations between Moncrief and its business partner, misappropriated commercial secrets and attempted to obstruct

justice in the course of litigation previously initiated by Moncrief. Moncrief is seeking to recover an unspecified amount of damages.

On June 4, 2008, Gazprom filed a motion with the District Court seeking the dismissal of the lawsuit due to lack of personal jurisdiction with respect to Gazprom.

Gazprom Neft, together with other shareholders of the Moscow Refinery, is a plaintiff in two lawsuits in the Moscow City Arbitration Court to invalidate the decision of the Moscow Refinery's annual shareholders meeting dated June 21, 2006. In order to settle their differences with respect to the Moscow Refinery, in December 2007 Gazprom and the Government of Moscow signed a memorandum on cooperation which specifies certain principles for the management of the Moscow Refinery between Gazprom Neft and MNGK. In connection with the signing of this memorandum, Gazprom Neft and the other shareholders of the Moscow Refinery which filed lawsuits in the Moscow City Arbitration Court to invalidate the decision of the Moscow Refinery's annual shareholders meeting dated June 21, 2006, filed a motion to abandon all claims. The court granted the motion and terminated the proceedings. In the other lawsuit, on May 18, 2007, the Moscow City Arbitration Court invalidated the decision of the annual meeting to elect the refinery's directors but rejected the claim to invalidate the decisions with respect to the other items on the agenda of the meeting. On January 16, 2008, the Federal Arbitration Court of the Moscow District upheld the decision of the Moscow City Arbitration Court.

On October 25, 2005, certain holders of American Depositary Receipts representing shares in Yukos filed a lawsuit in the United States District Court for the District of Columbia against the Government of Russia, Gazprom, a number of other Russian companies and individuals, including certain members of Gazprom's Board of Directors, alleging, among other things, a violation by the defendants of U.S. federal securities laws. On November 26, 2007, the United States District Court granted the defendants' motion to dismiss and rejected the action due to lack of personal jurisdiction, and on December 7, 2007, dismissed the case.

On June 19, 2006, the Moscow Territorial Department of the Federal Service for Financial Budgetary Surveillance ("Rosfinnadzor") issued two rulings holding Gazprom responsible for violations of the Currency Controls Law. According to Rosfinnadzor, Gazprom did not receive foreign currency proceeds from Moldovagaz (Republic of Moldova), and fines were imposed on Gazprom in the amount of RR54.9 million and RR312.4 million. On August 7, 2006 and August 14, 2006, the Moscow City Arbitration Court rejected Rosfinnadzor's rulings, and the rulings were upheld by the Federal Arbitration Court of the Moscow District and the Ninth Arbitration Court of Appeal, respectively. On February 21, 2007, after reviewing Rosfinnadzor's cassation appeal, the Federal Arbitration Court of the Moscow District dismissed these previous decisions and remanded the matter for further review in the court of first instance. On May 2, 2007, the Moscow City Arbitration Court again ruled Rosfinnadzor's ruling illegal. Rosfinnadzor appealed the decision of the Moscow City Arbitration Court, and on June 28, 2007, the appellate court rejected the appeal. On November 21, 2007, after reviewing Rosfinnadzor's cassation appeal, the Federal Arbitration Court of the Moscow District upheld the previous court decisions.

On June 3, 2008, the Moscow Territorial Department of Rosfinnadzor issued two rulings holding Gazprom responsible for administrative violations. According to Rosfinnadzor, Gazprom did not receive foreign currency proceeds from Moldovagaz in September and October 2007 in the amounts of U.S.\$17.8 million and U.S.\$5.5 million, respectively, and fines were imposed on Gazprom in the amount of 100% of the foreign currency proceeds. We appealed Rosfinnadzor's rulings in the Moscow City Arbitration Court. On July 3, 2008, the Moscow City Arbitration Court upheld our appeal and overturned Rosfinnadzor's rulings.

On August 21, 2006, the Russian Federal Tax Service issued its Decision No. 180/53-12 based on the results of a field tax audit for 2002 and 2003. In accordance with this decision, Gazprom was liable for additional taxes of RR1,782 million, penalties of RR642 million and fines of RR235 million. Gazprom appealed to void the decision of the tax authority in the Moscow City Arbitration Court. On February 5, 2007, the court reviewed the case and granted Gazprom's appeal, voiding the decision of the Russian Federal Tax Service. On May 17, 2007, the court of appeal affirmed the decision of the first instance arbitration court. On October 18, 2007, after reviewing the Russian Federal Tax Service's cassation appeal, the Federal Arbitration Court of the Moscow District rejected the court decisions as to the calculation and payment to Gazprom of the profit tax (the sum of the arrears and the fine amounts to RR500 million) and transferred the case for reconsideration. As to

the revision of other taxes, the courts decisions were upheld. On May 12, 2008, the Moscow City Arbitration Court reconsidered the case and granted Gazprom's appeal as to profit tax.

In May 2007, Rosfinnadzor issued three rulings holding Gazprom responsible for administrative violations for non-receipt of foreign currency proceeds for natural gas supplied to Moldova from October through December 2006. Administrative fines were imposed on Gazprom in the total amount of RR2,365 million. On June 19, 2007, June 14, 2007 and June 9, 2007, the Moscow City Arbitration Court rejected Rosfinnadzor's rulings and invalidated them. On September 26 and 27, 2007 and October 1, 2007, the Federal Arbitration Court considered Rosfinnadzor's three causation appeals and dismissed all of them.

In February 2008, bankruptcy creditors of KB Olimpiysky filed a lawsuit in the Moscow Region Arbitration Court alleging that the directors and the shareholders of the bank (including Gazprom) are responsible for subsidiary liability under the obligations of the bank. The joint recovery from these persons would be approximately RR3,292 million. The hearing of the Moscow Region Arbitration Court is scheduled for September 2, 2008.

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

Employees

For the years ended December 31, 2007, 2006 and 2005, we had a weighted average of approximately 445,000, 440,000 and 402,000 employees, respectively. The weighted average of employees includes Gazprom Neft's employees since the date of its acquisition by us.

We have a trade union, the Gazprom Inter-Regional Trade Union Organization of Oil, Gas and Construction of the Russian Federation, to which approximately 230,000 of the employees working for our major production subsidiaries belonged as of December 31, 2007. We have never experienced any strikes, work stoppages, labor disputes or actions that have affected the operation of our business and we consider our relationship with our employees to be good. We have entered into a new corporate collective agreement with the union for the period beginning 2007 through 2009. This agreement, which replaces the previous collective agreement that expired at the end of 2006, sets out our health and safety procedures. Our obligations with respect to employee health and safety procedures did not change materially under the new agreement. We have developed and operate a unified labor protection and industrial safety management system. The union monitors our compliance with the terms of the collective agreement.

We are undertaking initiatives to motivate our managers to contribute to our success and increase capital efficiency and have developed an additional management bonus program, which consists of two components: individual performance-related annual bonuses, designed to encourage the achievement of set goals for a fiscal year and share option plans, linked to our overall performance and designed to encourage our managers to help achieve our medium- and long-term strategic goals and increase our market capitalization.

MANAGEMENT OF GAZPROM

Members of Gazprom's Board of Directors are elected annually at Gazprom's General Meeting of Shareholders. The current members of Gazprom's Board of Directors were elected in June 2008 and are as follows:

Name	Position	Year of Birth
V. Zubkov	Chairman of Gazprom's Board of Directors and First Deputy Prime Minister of the Russian Federation	1941
A. Miller	Deputy Chairman of Gazprom's Board of Directors and Chairman of Gazprom's Management Committee	1962
A. Ananenko	Deputy Chairman of Gazprom's Management Committee	1952
B. Bergmann	Former member of the Executive Board of E.ON AG and former Chairman of the Executive Board of E.ON Ruhrgas AG	1943
B. Fedorov	Member of Gazprom's Board of Directors	1958
F. Gazizullin	Former Minister for Property Relations of the Russian Federation	1946
E. Karpel	Head of the Economic and Appraisal Department	1944
V. Khristenko	Minister for Industry and Trade of the Russian Federation	1957
E. Nabiullina	Minister for Economic Development of the Russian Federation	1963
M. Sereda	Deputy Chairman of Gazprom's Management Committee and Head of Administration of Gazprom's Management Committee	1970
I. Yusufov	Special Representative of the President of the Russian Federation for International Energy Cooperation and Ambassador-at-large of the Ministry of Foreign Affairs of the Russian Federation	1956

The current members of Gazprom's Management Committee are as follows:

Name	Position	Year of Birth	Term expires
A. Miller	Chairman of Gazprom's Management Committee	1962	May 2011
A. Ananenko	Deputy Chairman of Gazprom's Management Committee	1952	December 2011
V. Golubev	Deputy Chairman of Gazprom's Management Committee	1952	April 2013
S. Khomyakov	Deputy Chairman of Gazprom's Management Committee and Director-General of Gazprom's Security Service	1953	March 2012
A. Kozlov	Deputy Chairman of Gazprom's Management Committee	1952	March 2010
A. Kruglov	Deputy Chairman of Gazprom's Management Committee and Head of the Finance and Economics Department	1969	June 2012
A. Medvedev	Deputy Chairman of Gazprom's Management Committee and General-Director of Gazprom Export	1955	September 2012
E. Vasilieva	Deputy Chairman of Gazprom's Management Committee and Chief Accountant	1959	November 2011
B. Budzulyak	Head of the Gas Transportation, Underground Storage and Utilization Department	1946	June 2011
N. Dubik	Head of the Legal Department	1971	June 2013
I. Fedorov	Director-General of Gaskomplektimpex	1965	January 2012
Y. Golko	Head of the Department of Investment and Construction	1961	January 2012
V. Ilyushin	Head of the Department for Relations with Regional Authorities of the Russian Federation	1947	September 2012
O. Pavlova	Head of the Asset Management and Corporate Relations Department	1953	January 2009
V. Podyuk	Head of the Gas, Gas Condensate and Oil Production Department	1946	September 2012

Name	Position	Year of Birth	Term expires
V. Rusakova	Head of the Strategic Development Department	1953	September 2008
K. Seleznev	Head of the Gas and Liquid Hydrocarbons Processing and Marketing Department and Director-General of Mezhhregiongaz	1974	September 2012

The business address for Gazprom's Board of Directors and Management Committee is 16 Nametkina Street, 117884 Moscow, Russian Federation.

Director Biographies

V. Zubkov. Viktor Alexeevich Zubkov has been Chairman of Gazprom's Board of Directors since June 27, 2008. Mr. Zoubkov was appointed First Deputy Prime Minister of the Russian Federation on May 12, 2008. He previously served as Prime Minister of the Russian Federation (September 2007 – May 2008), Head of the Federal Financial Monitoring Service (2004-2007), First Deputy Minister of Finance and Head of the Federal Financial Monitoring Committee (2001-2004). Mr. Zubkov is also a member of the supervisory body of Vnesheconombank.

A. Miller. Alexei Borisovich Miller has been Deputy Chairman of Gazprom's Board of Directors since June 2002 and Chairman of Gazprom's Management Committee since May 2001. He was appointed to his position as Chairman of Gazprom's Management Committee by the Government, Gazprom's controlling shareholder. Mr. Miller is also a member of the supervisory and administrative bodies of Gazprombank, Sogaz, Gazprom Neft, Gazprom Media, Nord Stream, Gazfund and Shtokman Development AG.

A. Ananenkov. Alexander Georgievich Ananenkov has been a member of Gazprom's Board of Directors since June 2002 and Deputy Chairman of Gazprom's Management Committee since December 2001. Mr. Ananenkov is also a member of the supervisory and administrative bodies of Wintershall, Shtokman Development AG, non-commercial organizations Fund of Social and Economic Support for the Veterans of the North, and V.I. Vernadsky Fund, and is the Chief Editor of the magazine Gas Industry.

B. Bergmann. Burckhard Bergmann has been a member of Gazprom's Board of Directors since 2000. He was nominated to Gazprom's Board of Directors by E.ON Ruhrgas, one of Gazprom's major shareholders. Mr. Bergmann is also a member of the supervisory and administrative bodies of Allianz Lebensversicherungs-AG, ZAO Gerosgaz, MAN Ferrostal, Nord Stream, Commerzbank AG, Dana Gaz International, Akkumulatorenwerke Hoppecke Carl Zoellner and Sohn GmbH, and a member of the executive bodies of IVG Immobilien AG and Eger Beteiligungsgesellschaft GmbH & Co. KG.

B. Fedorov. Boris Grigorievich Fedorov has been a member of Gazprom's Board of Directors since July 2000. He is also a member of the supervisory and administrative bodies of OAO Savings Bank of Russia, OAO Sedmoi Continent, OOO Academ Alians-M, OOO Berlitz Travel, ZAO UFG Invest, OAO Ingosstrakh Insurance Company, OOO News-Media, OAO SiGMA ZAO Bridgetown Foods, Trans-Siberian Gold PLC and ZAO KB UNIFIN and from 2001 through 2006, he was the head of the political movement "Russia, Ahead!"

F. Gazizullin. Farit Rafikovich Gazizullin has been a member of Gazprom's Board of Directors since June 1998. Mr. Gazizullin previously served as Minister for Property Relations of the Russian Federation (2000-2004).

E. Karpel. Elena Evgenyevna Karpel has been a member of Gazprom's Board of Directors since June 2004. She has been Head of Gazprom's Economic and Appraisal Department since 1997. Ms. Karpel also serves as a member of the supervisory and administrative bodies of Latvijas Gaze, ArmRosGazprom, AO Overgaz Inc. and Severneftegazprom.

V. Khristenko. Victor Borisovich Khristenko has been a member of Gazprom's Board of Directors since 2000. Mr. Khristenko has been Minister for Industry and Trade of the Russian Federation since 2008 and was Minister for Industry and Energy of the Russian Federation from 2004 to 2008. Mr. Khristenko is also a member of the supervisory and administrative bodies of a number of other companies, including Transneft OAO SO-TsDU UES, OAO Federal Hydro Energy Company, OAO FSK UES, OAO KAMAZ and OOO International Consortium for Management and Development of Ukrainian Gas Transportation Systems. Mr. Khristenko served as Deputy Prime

Minister of the Russian Federation from 2000 to 2004, including serving as Acting Prime Minister from February 24, 2004 to March 5, 2004.

E. Nabiullina. Elvira Sakhripzadovna Nabiullina has been a member of Gazprom's Board of Directors since June 27, 2008. Ms. Nabiullina was appointed Minister for Economic Development of the Russian Federation on May 12, 2008. She previously served as Minister for Economic Development and Trade (2007-2008), Head of Research Group of Center of Strategic Research Fund (2005-2007), Head of Expert Council of Organization Committee for Preparation and Supporting of Chairmanship of Russian Federation in G8 in 2006 (2005-2006), President of Center of Strategic Research Fund (2003-2005) and First Deputy Minister for Economic Development and Trade (2003-2003). Ms. Nabiullina is also a member of the supervisory bodies of "Posnanotex," a Russian state company, and Vnesheconombank.

M. Sereda. Mikhail Leonidovich Sereda has been a member of Gazprom's Board of Directors since 2002. Mr. Sereda has served as Head of the Administration of Gazprom's Management Committee and Deputy Chairman of Gazprom's Management Committee-Head of the Administration of Gazprom's Management Committee since 2004, although he is not a member of Gazprom's Management Committee. Mr. Sereda is also a member of the supervisory and administrative bodies of WIEH, WINGAS, Gazprom UK Ltd., Gazprombank, Vostokgazprom, OAO Krasnodargazstroy, ZAO Gaztelekom, OOO Temryukmortrans ("Temryukmortrans"), OAO Volgogradneftemash, OAO Tsentrenergogaz, OAO Tsentr gaz, OAO Tomskgazprom, GWH Gas-und Warenhandels GmbH, OAO Gazpromtrubinvest, OAO Stroitransgaz, OAO Gazkom and OAO Gazmash, and he is a member of the executive body of AO Panrusgaz.

I. Yusufov. Igor Khanukovich Yusufov has been a member of Gazprom's Board of Directors since June 2003. Mr. Yusufov served as Minister of Energy of the Russian Federation from 2001 through March 2004. Since 2004, Mr. Yusufov has been Special Representative of the President of the Russian Federation for International Energy Cooperation and Ambassador-at-Large of the Ministry of Foreign Affairs of the Russian Federation.

Management Committee Biographies

A. Miller. See "—Director Biographies."

A. Ananenkov. See "—Director Biographies."

V. Golubev. Valeri Alexandrovich Golubev has been Deputy Chairman of the Management Committee since late 2006. Mr. Golubev has been a member of Gazprom's Management Committee since June 2003; he was Head of Gazprom's Department of Investment and Construction from 2005 through 2006. Mr. Golubev is a member of the supervisory and administrative bodies of Severneftegazprom, OAO Tsentr gaz, OAO Volgogradneftemash, OAO YuzhNIIGipro gaz, ZAO Zarubegneftegaz, KazRosGaz, NP Russian Gas Community, AO Moldovagaz, RosUkrEnergo, OOO International Consortium for the Management and Development of the Ukrainian Gas Transportation System, Mosenergo, OOO Gazpromtrans, ArmRosGazprom, Gazprom Neft, OAO Beltransgaz and OAO Sibur Holding, and a member of the executive bodies of the Kaunas Heating and Electrical Station and OAO Lietuvos Dujos. Mr. Golubev was Director-General of OOO Gazkomplektimpex (2005-2006) and the representative of the Legislative Assembly of the Leningrad Region in the Federal Council of the Federal Assembly of the Russian Federation (2002-2003).

S. Khomyakov. Sergey Fedorovich Khomyakov has been Deputy Chairman of Gazprom's Management Committee and Director-General of Gazprom Security Service since 2007. He served as First Deputy Director General of Gazprom Security Service from 2003 through 2007. Mr. Khomyakov was Deputy Chairman for foreign economic relations in FGUP "Moscow mint" in 2002-2003. He is also a member of the supervisory and administrative bodies of OAO Gazkom, OAO Gazproektengineering, RosUkrEnergo and Gazpromipoteka Fund, a non-commercial organization.

A. Kozlov. Aleksandr Nikolaevich Kozlov has been Deputy Chairman of Gazprom's Management Committee and a member of Gazprom's Management Committee since March 2005. From 2004 to 2005, he was Head of the Department of Material, Technical and Transportation Services of the Administrative Directorate of the President of the Russian Federation. From 2000 to 2004, he was Deputy Head of the Administrative Directorate of the President of the Russian Federation.

A. Kruglov. Andrei Vyacheslavovich Kruglov has been Deputy Chairman of Gazprom's Management Committee and Head of the Finance and Economics Department since 2004. He has been a member of Gazprom's Management Committee since 2002 and Head of the Finance and

Economics Department of Gazprom since 2003. He was Head of the Department of Corporate Finance of Gazprom in 2002-2003. Mr. Kruglov is also a member of the supervisory and administrative bodies of Gazprombank, Vostokgazprom, OAO Tomskgazprom, Severneftegazprom, ZAO KB Gazenergoprombank, OAO Belgazprombank, OAO Tsentrenergogaz, Gazprom Neft and Sogaz.

A. Medvedev. Alexander Ivanovich Medvedev has been Director-General of Gazprom Export (formerly Gazexport) and a member of Gazprom's Management Committee since 2002 and Deputy Chairman of Gazprom's Management Committee since 2005. Mr. Medvedev is a member of the supervisory and administrative bodies of GWH Gas-und Warenhandels GmbH, WIEH, WINGAS, ZAO Zarubezhneftegaz, ZAO Gerosgaz, Severneftegazprom, KazRosGaz, AO Fragaz, AO GazKop, VTB Bank (formerly Donau Bank), AO Prometey Gaz, AO Overgaz Inc., BSPC, ZAO Gaztranzit, GM&T, AO EvRoPol GAZ, Gazprom UK, Nord Stream, RosUkrEnergo and AB GPB Ipoteka. He is also a member of the executive bodies of AO Panrusgaz, ZAO SKA St. Petersburg, Gazprom Export, AO YugoRosGaz and Shtokman Development AG.

E. Vasilieva. Elena Alexandrovna Vasilieva has been Deputy Chairman of Gazprom's Management Committee, Gazprom's Chief Accountant and a member of Gazprom's Management Committee since September 2001. Ms. Vasilieva is also a member of the supervisory and administrative bodies of Yamalgazinvest, Gazprombank, OAO Lazurnaya and Gazprom UK.

B. Budzulyak. Bogdan Vladimirovich Budzulyak has been a member of Gazprom's Management Committee since 1989 and Head of Gazprom's Gas Transportation, Underground Storage and Utilization Department since 2001. Mr. Budzulyak is also a member of the supervisory and administrative bodies of BSPC, AO Overgaz Inc., AO Topenergy, ZAO TD RUS GAZ, Gazpromregiongaz and Mosenergo.

N. Dubik. Nikolai Nikolaevich Dubik has been a member of Gazprom's Management Committee since June 25, 2008; he has been the Head of Gazprom's Legal Department since 2008. Mr. Dubik is also a member of the supervisory and administrative bodies of Gazprom Finance B.V., OOO Irkutskgazprom, ZAO Stimul, AO Moldovaga, OAO Sogaz, Rosukrenergo AG, Gazprom Neft and AO EvRoPol Gaz.

I. Fedorov. Igor Yuryevich Fedorov has been Director-General of Gazkomplektimpex since late 2006 and a member of the Management Committee since January 2007; he was Deputy General Director for Administrative and Legal Affairs-Head of the Legal Division of Gazkomplektimpex from 2003 through 2006. From 2002 through 2003, Mr. Fedorov served as Head of the Division for Proprietary and Adjacent Rights of the Federal Agency for Legal Protection of Proprietary Rights for Results of Military, Special and Dual-Capable Activity under the Ministry of Justice of the Russian Federation. He is also a member of the supervisory and administrative body of AO Turusgaz and OOO Gaztehlizing.

Y. Golko. Yaroslav Yaroslavovich Golko has been Head of Gazprom's Investment and Civil Construction Department since 2006 and a member of the Management Committee since January 2007; he was first Deputy Head of the Department of Investment and Construction from 2005 through 2006. Mr. Golko served as Deputy Head of the Division of Registration, Analysis and Corporate Policy of the Department of Asset Management and Corporate Relations from 2003 through 2005. From 2002 through 2003, Mr. Golko was General Director of Maloye gosudarstvennoye predpriyatie "Sriks" (then ZAO "Stiks"), and General Director of OOO "Gaztaged" in 2003. Mr. Golko is also a member of the supervisory and administrative bodies of ZAO Gazpromstroengineering, OAO Tsentrgaz, OAO Gazpromtrubinvest, Zapsibgazprom, OAO LGSS, OAO Volgogaz, OAO Giprogaztsentr, OAO Krasnodargazstroi, OAO Spetsgazavtotrans, OAO Spetsgazremstroi, OAO Gazavtomatika, non-commercial organization Gazpromipoteka Fund, ZAO Yamalgazinvest, OOO Temryukmortrans, OAO VNIPIgazdobycha, OAO Gidrospetsgaz, AO Piter-Gaz B.V. and ZAO FNPTs NefteGazoAeroKosmos. He is also a member of the executive body of AO Turusgaz and Gazprom's President of Association of Project Organizations.

V. Ilyushin. Viktor Vasilievich Ilyushin has been a member of Gazprom's Management Committee since 1997 and Head of the Relations with Regional Authorities Department of the Russian Federation since 1998. He is also a member of the supervisory and administrative bodies of Yamalgazinvest, Zapsibgazprom, OAO Gazprommedstrakh and Gazpromregiongaz.

O. Pavlova. Olga Petrovna Pavlova has been a member of Gazprom's Management Committee since 2004 and Head of Gazprom's Asset Management and Corporate Relations Department since 2003. Ms. Pavlova is a member of the supervisory and administrative bodies of Gazpromregiongaz,

Gazprombank, Nortgaz, OAO Gazkom, Stimul, OAO Lazurnaya, OAO KB Severgazbank, Gazprom Neft, Severneftegazprom, NO Fond Gazpromipoteka, Gazprommesservis and Mosenergo. Previously, she served as Deputy Head of the President's Economic Department of the Presidential Administration of the Russian Federation (2002-2003) and Senior Lecturer of the Department of Civil Law at St. Petersburg State University (1997-2002).

V. Podyuk. Vasili Grigorievich Podyuk has been a member of Gazprom's Management Committee since 1997 and Head of Gazprom's Gas, Gas Condensate and Oil Production Department since 2002. He is also a member of the supervisory and administrative bodies of Achimgaz, Severneftegazprom, Gazprom Neft, TsentrCaspNeftegaz, Stimul, OAO KB Severgazbank, OOO Irkutskgazprom, Zarubegneftegaz and Shtockman Development AG.

V. Rusakova. Vlada Vilorikovna Rusakova has been a member of Gazprom's Management Committee and Head of Gazprom's Strategic Development Department since 2003. She was previously Head of the Division for Forecasting Growth Strategies of Gazprom (1998-2002). She is also a member of the supervisory and administrative bodies of OAO Promgaz, Latvijas Gaze and Nord Stream.

K. Seleznev. Kirill Gennadievich Seleznev has been a member of Gazprom's Management Committee and Head of Gazprom's Gas and Liquid Hydrocarbons Processing and Marketing Department since 2002. Mr. Seleznev was Deputy Head of the Administration of the Management Committee and assistant to the Chairman of the Management Committee of Gazprom (2001-2002). Mr. Seleznev is also a member of the supervisory and administrative bodies of Latvijas Gaze, KazRosGaz, Vostokgazprom, Nortgaz, Gazprom Neft, ZAO KB Gazenergoprombank, OAO Salavatnefteorgsintez, OAO Tomskgazprom, Gazpromregiongaz, OOO International Consortium for the Management and Development of the Ukrainian Gas Transportation System, Novatek, ZAO Zenit Football Club, NP Russian Gas Community, OAO Sibur-Mineralnie Udobreniya, OAO Sibur Holding and OAO Mosenergo. He also serves as a member of the executive bodies of Mezhhregiongaz, Lietuvos Dujos and Kaunas Heating and Electrical Station.

Description of Gazprom's Management

In accordance with the Joint Stock Companies Law and Gazprom's Charter, Gazprom's operations are governed by Gazprom's General Meeting of Shareholders, Board of Directors, Management Committee and the Chairman of the Management Committee. The General Meeting of Shareholders is Gazprom's highest governing body and, among other things, elects Gazprom's Board of Directors. Gazprom's Board of Directors is responsible for formulating the strategy and the executive bodies (the Management Committee and the Chairman of the Management Committee) are responsible for implementing the strategy and managing Gazprom on a day-to-day basis. All the governing bodies act in compliance with the laws of the Russian Federation, Gazprom's Charter and the regulations of these governing bodies which were approved by the General Meeting of Shareholders of Gazprom on June 28, 2002.

General Meeting of Shareholders

The General Meeting of Shareholders takes place annually, usually in June. The following decisions, among others, can be taken only by the General Meeting of Shareholders: amendments to the Charter, Gazprom's reorganization or liquidation, the election of the members of Gazprom's Board of Directors and Audit Commission, the determination of the quantity, category and nominal price of authorized shares as well as rights arising out of the ownership of shares, increases in the charter capital (when such decision is reserved for the General Meeting of Shareholders by the Charter in accordance with provisions of the Joint Stock Companies Law), reduction of the charter capital, approval of the annual report and annual accounts, approval of large transactions and transactions that involve interested parties (where such decision is reserved for the General Meeting of Shareholders in accordance with the Joint Stock Companies Law), as well as making other decisions in accordance with the terms of the Joint Stock Companies Law.

Board of Directors

Gazprom's Board of Directors is responsible for the general management of Gazprom's activities. The General Meeting of Shareholders determines the number of members of Gazprom's Board of Directors, which cannot be less than nine. Currently, there are 11 members of Gazprom's Board of Directors. Three members of Gazprom's Board of Directors currently hold positions in the Government, and a total of six members of Gazprom's current Board of Directors were nominated by the Government, including the Chairman of the Management Committee. The other members of

Gazprom's Board of Directors consist of one member of the Management Committee, two members of Gazprom's administration and two independent directors. The Chairman of Gazprom's Board of Directors, Mr. Zubkov, was appointed as First Deputy Prime Minister of the Russian Federation in May 2008.

The powers of Gazprom's Board of Directors include determining the priorities of Gazprom's operations, approving annual budgets, calling General Meetings of Shareholders and determining the agenda for such meetings, determining the record date for Gazprom's General Meetings of Shareholders, increasing Gazprom's charter capital (except where such increase is within the competence of the General Meeting of Shareholders), issuing bonds or other securities in accordance with the Joint Stock Companies Law, appointing Gazprom's executive bodies (such as the Management Committee and the Chairman of the Management Committee), deciding on early termination of the powers of these bodies, approving candidates nominated by the Chairman of the Management Committee for the position of Deputy Chairman of the Management Committee, determining the remuneration of the Chairman and members of the Management Committee, recommending the size of dividends for approval by the General Meeting of Shareholders, using the reserve and other funds, creating branch and representative offices, specifying the means of effecting transactions, adopting decisions on major transactions and certain "interested party" transactions (except for those major or "interested party" transactions for which approval is within the competence of the General Meeting of Shareholders), establishing the terms of cooperation with subsidiaries and organizations of which Gazprom holds stock and equity participations, and other matters.

Members of Gazprom's Board of Directors are elected by the General Meeting of Shareholders by a system of cumulative voting for a term lasting until the next annual General Meeting of Shareholders and may be re-elected an unlimited number of times. The General Meeting of Shareholders may also terminate the authority of all members of Gazprom's Board of Directors before the expiration of their terms. Members of the Management Committee may not comprise more than one-quarter of Gazprom's Board of Directors. The Chairman of Gazprom's Board of Directors is elected from and by the members of Gazprom's Board of Directors by a majority vote 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 Gazprom's Board of Directors.

Management Committee

The Management Committee and the Chairman of the Management Committee are Gazprom's executive bodies. The Chairman and other members of the Management Committee are each appointed by Gazprom's Board of Directors for a term of five years. Gazprom's Board of Directors has the right to terminate the authority of any member of the Management Committee as well as the Chairman of the Management Committee.

The competence of the Management Committee includes (i) developing forward-looking plans and principal programs for approval by Gazprom's Board of Directors, including Gazprom's annual budget and investment programs, and preparing reports on the implementation of those programs; (ii) organizing gas flow management and management of the UGSS; (iii) organizing control over the development of Gazprom's current and prospective plans and programs; (iv) approving the rules governing the organization and reliability of Gazprom's bookkeeping accounts and the timely preparation of the annual report and other financial reports; and (v) presenting information about Gazprom's activities for the use of shareholders, creditors, and the media.

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

Chairman of the Management Committee

The Chairman of the Management Committee has authority to act in Gazprom's name without power of attorney, presents Gazprom's interests, approves staff, issues orders and decrees, gives instructions to be carried out by all of Gazprom's employees and issues internal documents with respect to the current activities, with the exception of internal documents which are within the competence of Gazprom's other management bodies.

Additional Information about Gazprom's Directors and Management Committee Members

Directors' and officers' compensation

Gazprom's shareholders determine the compensation of directors at each General Meeting of Shareholders. The Board of Directors determines the amount of compensation paid to the Chairman of the Management Committee and to the members of the Management Committee of Gazprom.

The members of the Board of Directors and the Management Committee received short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies, of RR1,697 million and RR1,173 million in the years ended December 31, 2007 and 2006, respectively. Government officials working for the Board of Directors do not receive compensation from the Group.

Share ownership by directors and Management Committee members

As of May 8, 2008, the aggregate direct ownership of shares by the members of Gazprom's Management Committee and Board of Directors was 0.00709144% and 0.00275016%, respectively.

SHAREHOLDING STRUCTURE OF GAZPROM

Gazprom's charter capital amounts to RR118,367,564,500, consisting of 23,673,512,900 common shares with a nominal value of RR5 each.

Gazprom has held shareholders' meetings since 1995. The number of Gazprom's shareholders is estimated to be approximately 500,000 as of May 8, 2008.

Gazprom's common shares are traded at the leading Russian stock exchanges, including the Moscow Interbank Currency Exchange, the Russian Trading System Stock Exchange and the Saint Petersburg Stock Exchange.

The Decree of the President of the Russian Federation No. 529 of May 28, 1997 limited foreign equity participation in Gazprom to 9% of its shares. The Decree of the President of the Russian Federation No. 943 of August 10, 1998 authorized the sale of a further 5% of Gazprom's shares to foreign shareholders.

In December 2005, all previously imposed legal restrictions on foreign ownership and the trading of Gazprom's shares were terminated by:

- Federal law on the amendment of Article 15 of the Gas Supply Law of December 23, 2005, No. 182-FZ;
- The Decree of the President of the Russian Federation No. 1519 of December 23, 2005 on the recognition as inoperative of the decrees of the President of the Russian Federation; and
- Executive order by the Government of the Russian Federation of December 28, 2005, No. 818 on the recognition as inoperative of some executive orders of the Government.

These regulations terminated the quotas for the purchase of Gazprom's shares by foreigners and the restrictions on the trading of Gazprom's shares on Russian stock exchanges.

In 1996, we placed shares representing 1.98% of Gazprom's charter capital on the foreign markets in the form of American Depositary Receipts ("ADRs"). Due to the restrictions on foreign equity ownership that prevented the purchase of Gazprom's shares by foreign participants in the domestic market, the issue of ADRs created a dual market in Gazprom's shares, with the ADRs trading at a substantial premium over Gazprom's shares in the domestic market. In 1999, Ruhrgas (now E.ON Ruhrgas) acquired 1% of Gazprom's shares in the form of ADRs. Between December 2000 and January 2001 an additional 1.44% of Gazprom's shares were sold to foreign investors in the form of ADRs.

From June 20 to June 22, 2005, we concluded agreements for the sale of 10.74% of Gazprom's shares that were held by certain of our subsidiaries to Rosneftgaz, which is wholly state-owned, for total consideration of RR203,501.7 million (U.S.\$8.3 billion), less approximately RR22,573 million (U.S.\$919.6 million) in profit tax (nearly all of which has now been paid). These shares were transferred to Rosneftgaz between June 23, 2005 and July 1, 2005. As a result of these transactions, the Russian Federation controls more than 50% of Gazprom's shares.

In April 2006, Gazprom implemented a program of issuance of Level I American Depositary Receipts ("Level I ADRs"), which provides for the conversion of Gazprom shares into ADRs and vice versa. The Bank of New York acts as the depositary bank of the program. At present, Gazprom's Level I ADRs are freely tradeable on the over-the-counter stock market in the United States and on the European exchanges such as the Berlin-Bremen Stock Exchange and the Frankfurt Stock Exchange. The maximum volume of the shares subject to Level I ADRs may not exceed 35% of Gazprom's charter capital. ADRs for Gazprom's shares issued in 1996 pursuant to the private placement were automatically converted into Level I ADRs and remain listed on the London Stock Exchange.

The following table summarizes our shareholding structure as of May 8, 2008 (the date Gazprom's share register was closed with respect to the latest annual meeting of Gazprom's shareholders):

<u>Shareholders</u>	<u>%</u>
Interest controlled by the Russian Federation, including	over 50.00
Russian Federation represented by Federal Agency For State Property Management	38.37
Rosneftegaz ⁽¹⁾	10.74
Rosgazifikatsiya ⁽¹⁾	0.89
The Bank of New York Mellon (ADR holders) ⁽²⁾	22.40
Individuals ⁽³⁾	10.39
Gazprom subsidiaries (excluding Gazprombank).....	0.13
Other entities ⁽⁴⁾	17.08
Total	100.00

Notes:

(1) Controlled by the Russian Federation.

(2) Includes E.ON Ruhrgas holdings of 1% in the form of ADSs.

(3) Includes shares held by our employees and management (see "Management-Additional information about Gazprom's directors and Management Committee members-Share ownership by directors, Management Committee members and employees").

(4) Includes E.ON Ruhrgas holdings of 2.5% of Gazprom shares acquired through a privatization auction in 1998.

CERTAIN TRANSACTIONS

Interested Party Transactions under Russian Law

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

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

Under applicable Russian law, interested party transactions are to be approved by a majority of the disinterested independent members of the board of directors. Where all the directors are interested, or are not independent, or if the subject matter of the transaction exceeds 2% of the balance sheet assets of the company determined under Russian accounting principles (with certain exceptions for share placements), a majority vote of the disinterested shareholders of the company is required. If the approval process is violated, the transaction may be invalidated upon a claim by the company or any of its shareholders. However, a shareholder must prove actual damages in order to bring such a claim. An interested party is legally responsible for eventual damages caused to the company.

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

In addition, in order to facilitate business activities, the Joint Stock Companies Law provides for the right of the general shareholders’ meeting of a company to approve interested party transactions that may be entered into by the company and a specified interested party in the ordinary course of business during the period between such general shareholders’ meeting and the annual general shareholders’ meeting. Since 2004, the General Meeting of Shareholders has approved interested party transactions that may be entered into by Gazprom in the ordinary course of its business. We have put in place procedures to monitor our interested party transactions, which include keeping a register of all such transactions and maintaining a database of information provided to us by our managers and directors about companies in which they or their families hold positions on management bodies or have equity interests that is updated on a quarterly basis.

Transactions between members of a consolidated corporate group may be considered to be interested party transactions in certain circumstances, even when the companies involved are wholly-owned by the parent company. Our subsidiaries are subject to the same (or similar) legal requirements regarding the approval of interested party transactions.

The foregoing information relates to transactions and agreements entered into by our parent company, Gazprom.

Transactions with the Russian Federation

As of May 8, 2008, the Russian Federation controlled more than 50% of our shares, constituting 38.37% held directly and 11.63% held indirectly, of which 10.74% are held by Rosneftegaz, a state-owned company, and 0.89% are held by another state-controlled company, Rosgazifikatsiya. Moreover, its nominees, including Mr. Zubkov, the First Deputy Prime Minister of the Russian Federation and the Chairman of Gazprom's Board of Directors, and Mr. Miller, the Deputy Chairman of Gazprom's Board of Directors and Chairman of Gazprom's Management Committee, currently hold six of the 11 seats on Gazprom's Board of Directors. On November 14, 2005, Mr. Medvedev, the former Chairman of Gazprom's Board of Directors, was named First Deputy Prime Minister of the Russian Federation. On March 2, 2008, Mr. Medvedev was elected President of the Russian Federation. See "Risk Factors-Risks Relating to Our Business-The Government has exercised, and can be expected to continue to exercise, a strong influence over our operations." In the normal course of our business, we sell gas to Government-owned or -controlled entities and also enter into other transactions with such entities. The price at which we sell gas to these entities is the same regulated price at which we sell gas to other domestic consumers. See "Risk Factors-Risks Relating to Our Business-We are required to supply a significant portion of natural gas to customers in Russia at prices that are regulated by the Government" and Note 33 to Gazprom's consolidated financial statements as of December 31, 2007, 2006 and 2005 and for the years then ended.

From June 20 to June 22, 2005, we concluded agreements for the sale of 10.74% of our shares that were held by certain of our subsidiaries for total consideration of RR203,501.7 million (U.S.\$8.3 billion). Rosneftegaz is wholly-owned by, and thus controlled by, the Russian state. These shares were transferred to Rosneftegaz between June 23, 2005 and July 1, 2005, and we received final payment prior to the end of 2005.

FACILITY AGREEMENT

The following is the text of the Amended and Restated Facility Agreement to be entered into between us and the Issuer. In the context of each Series of Notes and the corresponding Loan, this Amended and Restated Facility Agreement should be read in conjunction with, and is qualified in its entirety by, the relevant Loan Supplement for such Series and Loan.

This Amended and Restated Facility Agreement is made on 7 December 2005 **between:**

- (1) **OPEN JOINT STOCK COMPANY GAZPROM**, a company established under the laws of the Russian Federation whose registered office is at 16 Nametkina Street, 117884 Moscow, Russian Federation (“**Gazprom**”); and
- (2) **GAZ CAPITAL S.A.**, a société anonyme established under the laws of Luxembourg whose registered office is at 2, Boulevard Konrad Adenauer L-1115 Luxembourg, registered with the Register of Commerce and Companies, Luxembourg under registered number B-95071 (the “**Lender**”).

Whereas:

- (A) Pursuant to a Facility Agreement dated 22 September 2003, (the “**Original Facility Agreement**”), the Lender, at the request of Gazprom, agreed to make available to Gazprom a loan facility in the maximum amount of the Programme Limit (as defined below) on the terms and subject to the conditions of the Original Facility Agreement, as amended and supplemented in relation to each Loan by a loan supplement dated the Closing Date substantially in the form set out in the Schedule thereto (each, a “**Loan Supplement**”).
- (B) It was intended that, concurrently with the extension of any Loan under the Original Facility Agreement, the Lender would issue certain loan participation notes in the same nominal amount and bearing the same rate of interest as such Loan.
- (C) It has been agreed in the Principal Trust Deed (as defined below) that if following the assignment by the Lender of its rights and obligations under any Loan Agreement, the Trustee or any person receiving payments under the direction of the Trustee in accordance with Clause 2.8 of the Principal Trust Deed is no longer a resident of a state with which the Russian Federation has a double taxation treaty providing for a zero withholding tax rate on income in the form of interest, then the Trustee shall use its best endeavours (using its powers under the Principal Trust Deed) to select a new trustee or co-trustee, appoint an agent or nominee, delegate any of its functions or take such other measures that it deems advisable or necessary so that payments obtain the benefit of a zero withholding tax rate on payments in the form of interest.
- (D) The parties hereto wish to amend and restate the Original Facility Agreement as set out below.

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:

“**Account**” means an account in the name of the Lender with the Principal Paying Agent as specified in the relevant Loan Supplement.

“**Administrative Services and Domiciliation Agreement**” means the administrative services and domiciliation agreement between the Lender and Deutsche Bank Luxembourg S.A. as amended and restated on 8 June 2005.

“**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.

“**Agency Agreement**” means the amended and restated paying agency agreement relating to the Programme dated 7 December 2005 between the Lender, Gazprom, the Trustee and the agents named therein.

“**Arrangers**” mean Deutsche Bank AG, London Branch and UBS Limited or any additional or replacement arranger appointed, and excluding any Arranger whose appointment has terminated pursuant to the Dealer Agreement.

“**Business Day**” means (save in relation to Clause 4) a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in the relevant place of payment, and (b) if on that day a payment is to be made in a Specified Currency other than euro hereunder, where payment is to be made by transfer to an account maintained with a bank in the Specified Currency, foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency and (c) if on that day a payment is to be made in euro hereunder, a day on which the TARGET System is operating and (d) in relation to a Loan corresponding to a Series of Notes to be sold pursuant to Rule 144A under the Securities Act, banks and foreign exchange markets are open for business generally in New York City.

“**Calculation Agent**” means, in relation to a Loan, Deutsche Bank AG, London Branch or any person named as such in the relevant Loan Supplement or any successor thereto.

“**Closing Date**” means the date specified as such in the relevant Loan Supplement.

“**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 the most recent consolidated balance sheet of Gazprom and its consolidated Subsidiaries immediately preceding the relevant Closing Date prepared in accordance with IFRS, as consistently applied, excluding, for the avoidance of doubt, any restatement for changes in the general purchasing power of the Rouble in accordance with IFRS 29 “Financial Reporting in Hyperinflationary Economies” 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 IFRS, as consistently applied.

“**Day Count Fraction**” has the meaning specified in the relevant Loan Supplement.

“**Dealer Agreement**” means the amended and restated dealer agreement relating to the Programme dated 7 December 2005 between the Lender, Gazprom, the Arrangers and the other dealers appointed pursuant to it.

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

“**Early Redemption Amount**” has the meaning specified in the relevant Loan Supplement.

“**Encumbrance**” means any mortgage, charge, pledge, lien (other than a lien arising solely by operation of law which is discharged within 45 calendar 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.

“**euro**” or “**€**” means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome, as amended.

“**Event of Default**” has the meaning assigned to such term in sub-clause 11.1 hereof.

“**Fees and Expenses Side Agreement**” means, in relation to each Series, the agreement defined as such in the relevant Subscription Agreement.

“**Final Terms**” means, in relation to a Loan, final terms issued specifying the relevant issue details of such Loan, substantially in the form of Schedule C of the Dealer Agreement.

“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.

“Fixed Rate Loan” means a Loan specified as such in the relevant Loan Supplement.

“Floating Rate Loan” means a Loan specified as such in the relevant Loan Supplement.

“Gazprom Account” means an account in the name of Gazprom as specified in the relevant Loan Supplement for receipt of Loan funds.

“Gazprom Agreements” means this Agreement, the Agency Agreement, the Dealer Agreement, the Trustee and Agents Fee Side Letter and together with, in relation to each Loan, the relevant Final Terms, Subscription Agreement and Loan Supplement.

“Group” means Gazprom and its Subsidiaries taken as a whole.

“IFRS” means the International Financial Reporting Standards issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time).

“Interest Payment Date” means the dates specified as such in the relevant Loan Supplement.

“Interest Period” means each period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

“Lead Manager(s)” means the Relevant Dealer(s) specified as such in the relevant Subscription Agreement.

“Lender Agreements” means the Dealer Agreement, this Agreement, the Agency Agreement, the Principal Trust Deed, the Administrative Services and Domiciliation Agreement, the Trustee and Agents Side Letter and together with, in relation to each Loan, the relevant Final Terms, Subscription Agreement, Loan Supplement and Supplemental Trust Deed and Fees and Expenses Side Agreement.

“Loan” means each loan to be made pursuant to, and on the terms specified in this Agreement and the relevant Loan Supplement and includes each Fixed Rate Loan and Floating Rate Loan.

“Loan Agreement” means this Agreement and (unless the context requires otherwise), in relation to a Loan means this Agreement as amended and supplemented by the relevant Loan Supplement.

“Make Whole Premium” has the meaning specified in the relevant Loan Supplement.

“Material Adverse Effect” means a material adverse effect on (a) the financial condition or operations of Gazprom and the Group taken as a whole or (b) Gazprom’s ability to perform its obligations under a Loan Agreement or (c) the rights or remedies of the Lender under a Loan Agreement.

“Notes” means the loan participation notes that may be issued from time to time by the Lender under the Programme in Series, each Series corresponding to a Loan and in relation to a Loan as defined in the relevant Loan Supplement.

“Noteholder” means, in relation to a Note, the person in whose name such Note is registered in the register of the noteholders (or in the case of joint holders, the first named holder thereof).

“Officer’s 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 in the form of Schedule 2.

“Opinion of Counsel” means a written opinion from international legal counsel who is acceptable to the Lender.

“Permitted Encumbrance” means:

- (i) any Encumbrance existing on the date of the relevant Loan 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 of such corporation or the Group;
- (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 of the Group;
- (iv) any Encumbrance on any property or assets securing Financial Indebtedness of Gazprom or any Subsidiary of Gazprom incurred or assumed for the purpose of financing all or part of the cost of acquiring, purchasing, constructing or developing such property or assets, provided that no such Encumbrance shall extend to any other property or assets of the Group, the principal amount of the Financial Indebtedness secured by such Encumbrance shall not exceed the cost of acquiring, purchasing, constructing or developing such property or assets, and such Encumbrance attaches to such property or assets concurrently with or within 90 calendar 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 of Gazprom incurred or assumed for the purpose of financing all or part of the cost of repairing or refurbishing such property or assets of the Group, 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 calendar 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 of Gazprom and not created in contemplation of such acquisition, provided that no such Encumbrance shall extend to any other property, income or assets of the Group;
- (vii) any Encumbrance on the property, income or assets of any Subsidiary of Gazprom securing intercompany Financial Indebtedness of such Subsidiary of Gazprom owing to Gazprom or another Subsidiary of Gazprom;
- (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 of Gazprom 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 calendar 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, company, firm, trust, organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality.

“**Potential Event of Default**” means any event which is, or after notice or passage of time or both would be, an Event of Default.

“**Principal Subsidiary**” means at any relevant time a Subsidiary of Gazprom:

- (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 per cent. of the total consolidated assets or the gross consolidated revenues of Gazprom and its Subsidiaries, all as calculated by reference to the then latest audited accounts (or consolidated accounts as the case may be) (in each case, produced on the basis of IFRS, consistently applied) of such Subsidiary and the then latest audited consolidated accounts of Gazprom (produced on the basis of IFRS, consistently applied) and its consolidated Subsidiaries; or
- (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.

“**Principal Trust Deed**” means the amended and restated principal trust deed dated 7 December 2005 between the Lender and the Trustee as amended, varied or supplemented from time to time in accordance with its terms.

“**Programme**” means the programme for the issuance of loan participation notes.

“**Programme Limit**” means U.S.\$30,000,000,000 or its equivalent in other currencies, being the maximum aggregate principal amount of Notes that may be issued and outstanding at any time under the Programme as may be increased in accordance with the Dealer Agreement.

“**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.

“**Put Settlement Date**” has the meaning specified in the relevant Loan Supplement.

“**Rate of Interest**” has the meaning assigned to such term in the relevant Loan Supplement.

“**Relevant Time**” means, in relation to a payment in a Specified Currency, the time in the principal financial centre of such Specified Currency and, in relation to a payment in euro, Brussels time.

“**Repayment Date**” means the date specified as such in the relevant Loan Supplement.

“**Roubles**” means the lawful currency of the Russian Federation.

“**Same-Day Funds**” means funds for payment, in the Specified Currency as the Lender may at any time determine to be customary for the settlement of international transactions in the principal financial centre of the country of the Specified Currency or, as the case may be, euro funds settled through the TARGET System or such other funds for payment in euro as the Lender may at any time determine to be customary for the settlement of international transactions in Brussels of the type contemplated hereby.

“**Series**” means a series of Notes that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number.

“**Side Letter**” means the letter specified as such in the relevant Loan Supplement.

“**Specified Currency**” means the currency specified as such in the relevant Loan Supplement.

“**Sterling**” means the lawful currency of the United Kingdom.

“**Subscription Agreement**” means the agreement specified as such in the relevant Loan Supplement.

“**Subsidiary**” means, with respect to any Person, (i) any corporation, association or other business entity of which more than 50 per cent. of the total voting power entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of such Person (or any combination thereof) 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).

“**Supplemental Trust Deed**” means a supplemental trust deed in respect of a Series of Notes which constitutes and secures, *inter alia*, such Series dated the relevant Closing Date and made between the Lender and the Trustee (substantially in the form set out in Schedule 10 of the Principal Trust Deed).

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereof.

“**Taxes**” means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Luxembourg or any taxing authority thereof or therein provided, however, that for the purposes of this definition the references to Luxembourg shall, upon the occurrence of the Relevant Event (as this term is defined in the Trust Deed), be deemed to be references to any jurisdiction in which the Trustee is domiciled or resident for tax purposes; and the term “Taxation” shall be construed accordingly.

“**Trust Deed**” means the trust deed specified as such in the relevant Loan Supplement.

“**Trustee**” means Deutsche Bank Trust Company Americas, as trustee under the Trust Deed and any successor thereto as provided thereunder.

“**Trustee and Agents Side Letter**” means a side letter between Gazprom, the Trustee and the Agents (as named therein) dated on or around 7 December 2005.

“**Warranty Date**” means the date hereof, each Trade Date, the date of each Loan Supplement, each Closing Date, each date on which the Base Prospectus or any of the Lender Agreements is amended, supplemented or replaced and each date on which the Programme Limit is increased.

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 Principal Trust Deed, the Notes, the Agency Agreement or the Dealer 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 the relevant Loan 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.
- 1.3.6 Any reference herein to a document being in “agreed form” means that the document in question has been agreed between the proposed parties thereto, subject to any amendments that the parties may agree upon prior to the Issue Date.
- 1.3.7 All references to “this Agreement” are references to this Amended and Restated Facility Agreement.

1.4 Amendment and Restatement

The parties hereto agree that this Agreement amends and restates the Original Facility Agreement. Any Loans made on or after the date hereof shall be made pursuant to, and have the benefit of, this Agreement. The amendments set out herein do not affect any Loans made prior to the date of this Agreement which shall be subject to the Original Facility Agreement or any Loans made in respect of loan participation note issues fungible with any such issue already outstanding which will be documented under the Original Facility Agreement.

2 Loans

2.1 Loans

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, the Lender hereby agrees to make available to Gazprom Loans up to the total aggregate amount equal to the Programme Limit.

2.2 Purpose

The proceeds of each Loan will be used for general corporate purposes, but the Lender shall not be concerned with the application thereof.

2.3 Separate Loans

It is agreed that with respect to each Loan, all the provisions of this Agreement and the Loan Supplement shall apply *mutatis mutandis* separately and independently to each such Loan and the expressions “Account”, “Closing Date”, “Day Count Fraction”, “Interest Payment Date”, “Loan Agreement”, “Notes”, “Rate of Interest”, “Repayment Date”, “Specified Currency”, “Subscription Agreement” and “Trust Deed”, together with all other terms that relate to such a Loan shall be construed as referring to those of the particular Loan in question and not of all Loans unless expressly so provided, so that each such Loan shall be made pursuant to this Agreement and the relevant Loan Supplement, together comprising the Loan Agreement in respect of such Loan and that, unless expressly provided, events affecting one Loan shall not affect any other.

3 Drawdown

3.1 Drawdown

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on the Closing Date thereof the Lender shall make a Loan to Gazprom and Gazprom shall make a single drawing in the full amount of such Loan.

3.2 Loan Fees and Expenses

In consideration of the Lender making a Loan to Gazprom, Gazprom hereby agrees that it shall, one Business Day before each Closing Date, pay to the Lender, in Same-Day Funds, an amount equal to the reasonable documented reimbursable expenses incurred by the Lender in a total amount to be specified in the relevant Loan Supplement.

3.3 Disbursement

Subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on each Closing Date the Lender shall transfer the amount of the relevant Loan to the Gazprom Account specified in the relevant Loan Supplement.

3.4 Programme Fees and Expenses

In consideration of the Lender establishing and maintaining the Programme and agreeing to make Loans to Gazprom, Gazprom shall pay on demand to the Lender each year an amount to reimburse the Lender for its reasonable documented expenses relating to its management and operation in servicing the Loans as set forth to Gazprom in an invoice from the Lender.

4 Interest

4.1 Rate of Interest for Fixed Rate Loans

Each Fixed Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the applicable Rate of Interest.

If a Fixed Amount or a Broken Amount is specified in the relevant Loan Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the relevant Loan Supplement.

4.2 Payment of Interest for Fixed Rate Loans

Interest at the Rate of Interest shall accrue on each Fixed Rate Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid in arrear not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date.

4.3 Interest for Floating Rate Loans

4.3.1 *Interest Payment Dates:* Each Floating Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest, such interest being payable in arrear not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the relevant Loan Supplement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Loan Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Loan Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

4.3.2 *Business Day Convention:* If any date referred to in the relevant Loan Supplement that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

4.3.3 Rate of Interest for Floating Rate Loans: The Rate of Interest in respect of Floating Rate Loans for each Interest Accrual Period shall be determined in the manner specified in the relevant Loan Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Loan Supplement.

(i) ISDA Determination for Floating Rate Loans

Where ISDA Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (i), “ISDA Rate” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (a) the Floating Rate Option is as specified in the relevant Loan Supplement;
- (b) the Designated Maturity is a period specified in the relevant Loan Supplement; and
- (c) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Loan Supplement.

For the purposes of this sub-paragraph (i), “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity”, “Reset Date” and “Swap Transaction” have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Loans

- (a) Where Screen Rate Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(I) the offered quotation; or

(II) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Loans is specified in the applicable Loan Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Loans will be determined as provided in the applicable Loan Supplement.

- (b) if the Relevant Screen Page is not available or if, sub-paragraph (a)(I) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (a)(II) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide

the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

- (c) if paragraph (b) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of Gazprom and the Lender suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

4.4 Accrual of Interest

Interest shall cease to accrue on each Loan on the due date for repayment unless payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the applicable Rate of Interest to but excluding the date on which payment in full of the principal thereof is made.

4.5 Margin, Maximum/Minimum Rates of Interest and Rounding

- 4.5.1** If any Margin is specified in the relevant Loan Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Clause 4.3 above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
- 4.5.2** If any Maximum or Minimum Rate of Interest is specified in the relevant Loan Supplement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.
- 4.5.3** For the purposes of any calculations required pursuant to a Loan Agreement (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the

case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

4.6 Calculations

The amount of interest payable in respect of any Loan for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding principal amount of such Loan by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in the relevant Loan Supplement in respect of such period, in which case the amount of interest payable in respect of such Loan for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

4.7 Determination and Publication of Rates of Interest and Interest Amounts

The Calculation Agent shall, as soon as practicable on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts in respect of such Floating Rate Loan for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date to be notified to Gazprom, the Trustee, the Lender, each of the Paying Agents and any other Calculation Agent appointed in respect of such Floating Rate Loan that is to make a further calculation upon receipt of such information. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Clause 4.3.2, the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of Gazprom and the Lender by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If such Floating Rate Loan becomes due and payable under Clause 11, the accrued interest and the Rate of Interest payable in respect of such Floating Rate Loan shall nevertheless continue to be calculated as previously in accordance with this Clause but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Lender otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

4.8 Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount in relation to a Floating Rate Loan, the Lender and Gazprom agree that such determination or calculation may be made by or at the direction of the Trustee as set out in the conditions of the corresponding Series of Notes and such determination or calculation shall be deemed to have been made by the Calculation Agent. The parties acknowledge that in doing so, the Trustee shall apply or shall have applied the foregoing provisions of this Clause, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

4.9 Definitions

In this Clause 4, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Business Day**” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET system is operating (a “TARGET Business Day”); and/or

- (iii) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the “Calculation Period”):

- (i) if “Actual/365” or “Actual/Actual-ISDA” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365;
- (iii) if “Actual/360” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 360;
- (iv) if “30/360”, “360/360” or “Bond Basis” is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));
- (v) if “30E/360” or “Eurobond Basis” is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of a Calculation Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and
- (vi) if “Actual/Actual-ICMA” is specified in the relevant Loan Supplement:
 - (a) If the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
 - (b) if the Calculation Period is longer than one Determination Period, the sum of:
 - (I) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (II) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date.

“**Determination Date**” means the date specified in the relevant Loan Supplement or, if none is so specified, the Interest Payment Date.

“**Euro-zone**” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended

“**Interest Accrual Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“**Interest Amount**” means the amount of interest payable, and in the case of Fixed Rate Loans, means the Fixed Amount or Broken Amount, as the case may be.

“**Interest Commencement Date**” means the Closing Date or such other date as may be specified in the relevant Loan Supplement.

“**Interest Determination Date**” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Loan Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“**Interest Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“**Interest Period Date**” means each Interest Payment Date unless otherwise specified in the relevant Loan Supplement.

“**ISDA Definitions**” means the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Loan Supplement.

“**Reference Banks**” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified in the relevant Loan Supplement.

“**Reference Rate**” means the rate specified as such in the relevant Loan Supplement.

“**Relevant Screen Page**” means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Loan Supplement.

4.10 Calculation Agent

The Lender shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the relevant Loan Supplement and for so long as any amount remains outstanding under a Loan Agreement. Where more than one Calculation Agent is appointed in respect of a Loan, references in the relevant Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, or to comply with any other requirement, the Lender shall (with the prior approval of Gazprom) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. Both Gazprom and the Lender agree that such successor Calculation Agent will be appointed on the terms of the Agency Agreement in relation to each particular Series.

5 Repayment and Prepayment

5.1 Repayment

Except as otherwise provided herein and in the applicable Loan Supplement, Gazprom shall repay each Loan not later than 10.00 a.m. (Relevant Time) one Business Day prior to the Repayment Date therefor.

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 Luxembourg or the laws or regulations of the Russian Federation or Luxembourg or of any political sub-division thereof or any authority therein or the enforcement of the security provided for in any Trust Deed, Gazprom would thereby be required to make or increase any payment due pursuant to any Loan Agreement as provided in sub-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 Lender (which notice shall be irrevocable), prepay the relevant Loan in whole (but not in part) on any Interest Payment Date, in the case of a Floating Rate Loan, or at any time, in the case of a Fixed Rate Loan.

5.3 Illegality

If, at any time after the date of the relevant Loan Supplement, by reason of the introduction of, or any change in any applicable law or regulation or regulatory requirement or directive of any agency of any state the Lender 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 applicable law, regulation, regulatory requirement or directive for the Lender to allow all or part of the relevant Loan or the corresponding Series of Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with the relevant Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to such Loan, then upon notice by the Lender to Gazprom in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), Gazprom and the Lender shall consult in good faith as to a basis which eliminates the application of such circumstances; provided, however, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 calendar days of the date on which it so notified Gazprom. If such a basis has not been determined within the 30 calendar days, then upon notice by the Lender to Gazprom in writing, Gazprom shall prepay such Loan in whole (but not in part) on the next Interest Payment Date therefor, in the case of a Floating Rate Loan, or, in the case of a Fixed Rate Loan, on such date as the Lender shall certify to be necessary to comply with such requirements.

5.4 Payment of Other Amounts

If a 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 Lender accrued interest thereon to the date of actual receipt of payment by the Lender and all other sums payable by Gazprom pursuant to the relevant Loan Agreement.

5.5 Optional Prepayment under Call Option

If Call Option is specified in the relevant Loan Supplement, Gazprom may, at its option at any time prior to the Repayment Date on giving not less than 30 nor more than 60 days' irrevocable notice to the Issuer, in whole or in part, repay the Loan at the Early Redemption Amount plus the Make Whole Premium. The notice to be given shall specify the date for repayment of the Loan and the date for the redemption of the Notes (the "**Call Redemption Date**"), which shall be the next following Business Day after the date for repayment of the Loan. Immediately on receipt of such notice, the Issuer shall forward it to the Noteholders, the Trustee and the Principal Paying Agent. The Loan shall be repaid on the date specified in such notice.

5.6 Optional Prepayment under Put Option

If Put Option is specified in the relevant Loan Supplement, following notification from the Issuer, Gazprom shall prepay the Loan (without premium or penalty), to the extent of the aggregate principal amount of the Notes to be properly redeemed in accordance with Condition 6 of the terms and conditions of the Notes, two Business Days prior to the Put Settlement Date.

5.7 Provisions Exclusive

Gazprom may not voluntarily prepay any Loan except in accordance with the express terms of the relevant Loan 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 each Loan Agreement shall be made to the Lender not later than 10.00 a.m. (Relevant 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 relevant Account. The Lender agrees with Gazprom that it will not deposit any other moneys into such Account and that no withdrawals shall be made from such Account other than as provided for and in accordance with the relevant 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 each Loan 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 a Loan Agreement for or on account of any Taxes, it shall increase any payment due under such Loan Agreement to such amount as may be necessary to ensure that the Lender receives a net amount in the Specified Currency 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 Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes, Gazprom shall reimburse the Lender in the Specified Currency for such payment on demand. For the avoidance of doubt, this Clause 6.2 shall not be prejudiced by the failure (if any) by the Lender to satisfy its obligation to obtain a certificate from the competent Luxembourg authorities pursuant to Clause 10.7.1.

6.3 Withholding on Notes

If the Lender 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 a Series of Notes in circumstances where the Lender is required to pay additional amounts pursuant to Condition 8 of such Series of Notes, Gazprom agrees to pay to the Lender, not later than 10.00 am (Relevant Time) one Business Day prior to the date on which payment is due to the Noteholders of such Series in Same-Day Funds to the relevant Account, such additional amounts as are equal to the said additional amounts which the Lender must pay pursuant to Condition 8 of such Series of Notes; provided, however, that the Lender shall immediately upon receipt from any Paying Agent of any sums paid pursuant to this provision, to the extent that the Noteholders of such Series, as the case may be, are not entitled to such additional amounts pursuant to the Conditions of such Series of Notes, repay such additional amounts to Gazprom (it being understood that neither the Lender, nor the Principal Paying Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder of such Series is entitled to such additional amount).

6.4 Reimbursement

To the extent that the Lender 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 any Trust Deed, it shall pay to Gazprom so much of the benefit it received as will leave the Lender 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 Lender pursuant to such 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 Lender. The Lender shall use its best endeavours to obtain any credits or refunds available to it, and the Lender shall disclose to Gazprom any information regarding its tax affairs or computations requested by Gazprom and notify Gazprom of any tax credit or allowance or other reimbursement it receives from the Trustee pursuant to such Trust Deed.

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 sub-clauses 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the Lender'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 Lender for all properly incurred costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause.

7 Conditions Precedent

7.1 Documents to be Delivered

The obligation of the Lender to make each Loan shall be subject to the receipt by the Lender on or prior to the relevant Closing Date of evidence that the persons mentioned in sub-clauses 14.10.5 and 14.10.6 hereof have agreed to receive process in the manner specified therein.

7.2 Further Conditions

The obligation of the Lender to make each Loan shall be subject to the further conditions precedent that as of the relevant 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 such 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 the relevant Loan Agreement, (d) the relevant Subscription Agreement, Trust Deed and the Paying Agency Agreement shall have been executed and delivered, and the Lender shall have received the full amount of the proceeds of the issue of the corresponding Series of Notes pursuant to such Subscription Agreement and (e) the Lender shall have received in full the amount referred to in sub-clauses 3.2 and 3.4, if due and payable, above, as specified in the relevant Loan Supplement.

8 Change in Law or Increase in Cost

8.1 Compensation

In the event that after the date of a Loan 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, which:

- 8.1.1** subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any Taxes payable by the Lender on its overall net income or any Taxes referred to in sub-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 Lender of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income or as a result of any Taxes referred to in sub-clauses 6.2 or 6.3); or
- 8.1.3** imposes or will impose on the Lender any other condition affecting such Loan Agreement or such Loan,
and if as a result of any of the foregoing:
 - (i) the cost to the Lender of making, funding or maintaining such Loan is increased; or
 - (ii) the amount of principal, interest or other amount payable to or received by the Lender under such Loan Agreement is reduced; or
 - (iii) the Lender 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 such Loan, then subject to the following, and in each such case:
 - (a) the Lender 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 directors of the Lender or by any person empowered by the board of directors of the Lender to sign on behalf of the Lender 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 written notice; and
 - (b) Gazprom, in the case of clauses (i) and (iii) above, shall on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender 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 Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return,

provided that this sub-clause 8.1 will not apply to or in respect of any matter for which the Lender has already been compensated under sub-clauses 6.2 or 6.3.

8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to sub-clause 8.1:

- 8.2.1** the Lender shall consult in good faith with Gazprom and shall use reasonable efforts (based on the Lender'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; and
- 8.2.2** Gazprom may, only in accordance with Clause 17 of the Principal Trust Deed (including with the consent of the Trustee thereunder), require the substitution of the Lender as lender under the relevant Loan Agreement(s) and as issuer of the corresponding Series of

Notes, except that nothing in this sub-clause 8.2 shall obligate the Lender to incur any costs or expenses in taking any action hereunder unless Gazprom agrees to reimburse the Lender such costs or expenses.

9 Representations and Warranties

9.1 Gazprom's Representations and Warranties

Gazprom does, and on each Warranty Date shall be deemed to, represent and warrant to the Lender as follows, to the intent that such shall form the basis of each Loan Agreement:

- 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 each Loan Agreement and to borrow Loans; Gazprom has taken all necessary corporate, legal and other action required to authorise the borrowing of Loans on the terms and subject to the conditions of each Loan Agreement and to authorise the execution and delivery of each Loan Agreement and all other documents to be executed and delivered by it in connection with each Loan Agreement, and the performance of each Loan Agreement in accordance with its terms.
- 9.1.2** The Loan Agreement, including each Loan Supplement in relation thereto, 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 sub-clause 6.2 or 6.3 may not be enforceable under Russian law.
- 9.1.3** The execution, delivery and performance of each Loan Agreement, including each Loan Supplement in relation thereto, 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.
- 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, subject to Russian legal requirements, admissibility in evidence of each Loan Agreement have been obtained or effected and are 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 a Loan.
- 9.1.6** Except as disclosed in the base prospectus dated 7 December 2005 relating to the Programme (as amended or supplemented from time to time, the "Base Prospectus") 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 has or would be reasonably likely to have a Material Adverse Effect.
- 9.1.7** Except for Encumbrances of the types referred to in the definition of Permitted Encumbrances in sub-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 would be reasonably likely to have a Material Adverse Effect and Gazprom's obligations under the Loans will 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 IFRS, as consistently applied; 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** Except as disclosed in the Base Prospectus, there has been no material adverse change since the date of the last audited consolidated financial statements of Gazprom in the financial condition, results of business operations or prospects of Gazprom and the Group taken as a whole.
- 9.1.10** The execution, delivery and enforceability of each Loan 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 each Loan 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 started or threatened in writing against Gazprom or any of its Principal Subsidiaries (except for those which, being contested in good faith and which are capable of being discharged or staged within 45 Business Days, the Lender reasonably considers to be frivolous or vexatious) for its or their bankruptcy, winding-up, dissolution, external administration or re-organisation related thereto (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 or their assets or revenues.
- 9.1.14** In any proceedings taken in the Russian Federation in relation to each Loan Agreement, the choice of English law as the governing law of each Loan Agreement and any arbitration award obtained in England pursuant to Clause 14.10 in relation to each Loan Agreement will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and all other legal requirements in the Russian Federation.
- 9.1.15** Subject to sub-clause 10.7.1, 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.
- 9.1.16** Its execution of each Loan Agreement will constitute, 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.
- 9.1.17** It has no overdue tax liabilities which would be reasonably likely to have a Material Adverse Effect other than those which it has disclosed to the Lender prior to the date hereof or which it is contesting in good faith.
- 9.1.18** 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 would be reasonably likely to not have a Material Adverse Effect.
- 9.1.19** 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 Lender's Representations and Warranties

The Lender represents and warrants to Gazprom as follows:

- 9.2.1** The Lender is duly incorporated under the laws of and is a resident for Luxembourg taxation purposes in Luxembourg and has full power and capacity to execute the Lender Agreements and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same.

9.2.2 The execution of the Lender Agreements and the undertaking and performance by the Lender 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 Luxembourg or the constitutive documents, rules and regulations of the Lender 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 The Lender Agreements constitute legal, valid and binding obligations of the Lender.

9.2.4 All authorisations, consents and approvals required by the Lender for or in connection with the execution of the Lender Agreements, the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

9.2.5 So long as any amount remains outstanding under a Loan Agreement, it will comply with the provisions of Clause 14.14 of the Principal Trust Deed.

10 Covenants

So long as any amount remains outstanding under a Loan Agreement:

10.1 Negative Pledge

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

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 such Loan Agreement or for the validity or enforceability thereof.

10.3 Mergers

Gazprom shall not, without the prior written consent of the Lender, enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed by applicable Russian legislation), or participate in any other type of corporate reconstruction and Gazprom shall ensure that no Principal Subsidiary enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation), or 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 payment or other material obligations under such Loan Agreement or the validity or enforceability of such Loan Agreement or the rights or remedies of the Lender under such Loan Agreement.

10.4 Disposals

10.4.1 Gazprom shall not and Gazprom shall ensure that no member of the Group shall, without the prior written consent of the Lender, (disregarding (i) sales 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, (iii) dispositions of assets or rights not related to the extraction, production, transportation, marketing or supply of gas and (iv) assignments or other arrangements by way of security permitted under Clause 10.1) 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 an aggregate value in excess of U.S.\$3,000,000,000 or the equivalent thereof to a Person that is not a member of the Group.

10.4.2 Sub-clause 10.4.1 does not apply to disposals of assets in exchange for other assets comparable or superior as to type, value and quality.

10.5 Maintenance of Property

Gazprom and any Principal Subsidiary will cause all property used in the carrying on by it of its business for the time being to be kept in good repair and working order as, in the judgment of Gazprom or such 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

Gazprom shall pay or discharge or cause to be paid or discharged, before the same shall become overdue, all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of Gazprom; provided that Gazprom shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS as consistently applied or other appropriate provision has been made or (b) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed U.S.\$500,000,000.

10.7 Withholding Tax Exemption

10.7.1 The Lender shall provide Gazprom, as soon as practicable but in any event not later than 21 calendar days after 1 January in each calendar year with a certificate, issued and/or certified by the competent Luxembourg authorities, confirming that the Lender is resident in Luxembourg, provided that the Lender shall not be liable for any failure to provide, or any delays in providing, such residency certificate as a result of any action or inaction of the competent Luxembourg authorities, but shall notify Gazprom without delay about any such failure or delay with a written description of the actions taken by the Lender to obtain such residency certificate. In the event that the Lender has not complied with its duty to provide such certificate as set out in this sub-clause, Gazprom has a right of recourse against the Lender in respect of such non compliance. Such certificate shall be appropriately apostilled and a certified translation supplied.

10.7.2 Gazprom and the Lender 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 sub-clause 10.7.1 will be deemed changed accordingly.

10.8 Maintenance of Insurance

Gazprom and any Principal Subsidiary shall keep those of their properties which are of an insurable nature insured with insurers who implement good business practices and are believed by Gazprom or such Principal Subsidiary, as the case may be, to be responsible against loss or damage to the extent that property of similar character is usually so insured by corporations in the same jurisdictions similarly situated, except where the failure to maintain such insurance could not have a Material Adverse Effect.

10.9 Reports

10.9.1 Gazprom will furnish to the Lender, within 9 months of the relevant year-end, each set of audited annual financial statements prepared in accordance with IFRS as consistently applied, including a report thereon by Gazprom's certified independent accountants.

10.9.2 On each Interest Payment Date, Gazprom shall deliver to the Lender a written notice in the form of an Officer's Certificate stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred and shall be continuing, what action Gazprom is taking or proposes to take with respect thereto.

10.9.3 Gazprom will on request of the Lender provide the Lender 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 Lender may reasonably require (including pursuant to Clauses 14.5 and 14.12 of the Principal Trust Deed).

10.9.4 At any time after Gazprom or any subsidiary of Gazprom shall have purchased any Notes and retained such Notes for its own account or for the account of any other company, Gazprom will notify the Lender to that effect and thereafter deliver to the Lender as soon as practicable after being so requested in writing by the Lender a certificate of Gazprom setting out the total number of Notes which, at the date of such Note, are held by Gazprom for its own account or for the account of any other company or any subsidiary of Gazprom for its own account or for the account of any other company.

10.10 Compliance with Terms of Trust Deed

The Lender agrees that it will observe and comply with its obligations set out in the relevant 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 Lender agrees that it will only exercise its power to appoint a new Trustee pursuant to Clause 26.1 of the Principal 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 Lender shall be entitled to the remedies set forth in sub-clause 11.3:

11.1.1 Gazprom fails to pay within three Business Days any amount payable under a Loan Agreement as and when such amount becomes payable in the currency and in the manner specified therein, 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 Lender 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 a Loan 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 45 calendar days (or such longer period as the Lender may permit) next following the submission by the Lender 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 a Loan Agreement or in any other document, certificate or notice delivered to the Lender in connection with such Loan Agreement or the issue of the corresponding Series 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 and the failure to render such representation or warranty true, correct and not misleading could have a Material Adverse Effect and such representation or warranty shall not have been rendered true, correct and otherwise not misleading in any material respect within 30 calendar days following the submission by the Lender to Gazprom of notice in writing requesting the same to be remedied.

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 has exercised the right to accelerate the maturity of any amount owing thereunder and such amount becomes so accelerated; provided, that

the total amount of such Financial Indebtedness unpaid and accelerated exceeds U.S.\$20,000,000 (or its equivalent in another currency); provided however that this sub-clause 11.1.4 shall not apply to foreign currency Financial Indebtedness owed to Russian Persons (being Russian citizens or legal entities organised under Russian law or having their chief place of business in the Russian Federation).

- 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 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; provided that the same could have a Material Adverse Effect.
- 11.1.7** Gazprom or any Principal Subsidiary (i) fails or is unable to pay its debts generally as they become due (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 and are not dismissed within 30 calendar days, 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 provided that the same could have a Material Adverse Effect.
- 11.1.8** Any governmental authorisation necessary for the performance of any obligation of Gazprom under a Loan Agreement fails to be in full force and effect and such failure has not been remedied within 30 calendar days after the occurrence thereof.
- 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 a Loan Agreement or the validity or enforceability of a Loan Agreement or the rights or remedies of the Lender under a Loan Agreement, save where such action is being contested in good faith by Gazprom and is not removed, paid out, stayed or discharged within 45 calendar days of such action being taken.
- 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 45 calendar days of such execution, distress being levied, taking of possession or similar or analogous act, as the case may be.
- 11.1.11** There are unsatisfied final judgments, decrees or orders of courts of competent jurisdiction or other appropriate and competent law-enforcement bodies for the payment of money against Gazprom and its Principal Subsidiaries which could have a Material Adverse Effect and there is a period of 30 calendar days following the entry thereof during which the relevant judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for 10 calendar days after the notice specified in sub-clause 11.2.
- 11.1.12** Any seizure, compulsory acquisition, expropriation or nationalisation after the date of a Loan Agreement by or under the authority of a government authority of all or part (the book value of which is fifteen per cent. (15 per cent.) or more of the book value of the whole) of the assets or all or more than fifteen per cent. (15 per cent.) 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 of a Loan Agreement; provided that, in the case of a Principal Subsidiary, the same could have a Material Adverse Effect.

11.1.14 At any time it is or becomes unlawful for Gazprom to perform or comply with any or all of its (in the opinion of the Lender) material obligations under a Loan Agreement or any of such material obligations (subject as provided in sub-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, subject to the same thresholds and cure periods as set out in the relevant paragraph.

11.2 Notice of Default

Gazprom shall deliver to the Lender and the Trustee, (i) promptly upon becoming aware thereof, or (ii) within 10 days of any written request by the Lender, written notice in the form of an Officers' Certificate substantially in the form of Schedule 2, stating whether any event which is a Potential Event of Default or an Event of Default has occurred, 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 Lender may, by notice in writing to Gazprom, (a) declare the obligations of the Lender under the relevant Loan Agreement to be immediately terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable under such Loan Agreement 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 all expressly waived by Gazprom; provided, however, that if any event of any kind referred to in sub-clause 11.1.7 occurs, the obligations of the Lender under such Loan Agreement shall immediately terminate, and all amounts payable under such Loan Agreement 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 in each Loan Agreement 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 Lender that if the Lender or any director, officer, employee or agent (other than the Principal Paying Agent or any of the Paying Agents) of the Lender (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 a Loan Agreement (or enforcement thereof), and/or the issuance, constitution, sale, listing and/or enforcement of the corresponding Series of Notes and/or the Notes of such Series being outstanding (excluding a Loss that is the subject of the undertakings contained in Clauses 8 and 13 and sub-clause 14.6 of this Agreement (it being understood that the Lender 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 Lender in accordance with sub-clause 14.4) unless, in any such case, such Loss was either caused by such Indemnified Parties' negligence or wilful misconduct or arose out of a breach of the representations and warranties of the Lender contained herein or in the Dealer Agreement; provided that this sub-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 such Loan Agreement. It is understood and agreed that any payment to be made by Gazprom pursuant to this Clause 12.1 shall be made through the Lender acting as paying agent pursuant to a paying agent agreement dated 7 December 2005 between Gazprom and the Lender, provided that any obligation of Gazprom to pay any amount pursuant to this Clause 12.1 shall only be discharged to the extent that payments of such amount is actually received by the relevant Indemnified Party. It is understood that the amount of Loss that is to be paid pursuant to the

preceding provisions of this paragraph, provided such amount is duly documentarily evidenced, will be paid by Gazprom on the basis of an invoice distributed to Gazprom by the Lender and a delivery and acceptance act signed by the parties.

12.2 Notice and Payment of Loss, Defence of Action and Settlement

If any proceeding (including a governmental investigation), claim or demand shall be instituted involving an Indemnified Party, it shall promptly notify Gazprom in writing and Gazprom shall have the right to assume the defence thereof and appoint lawyers which are acceptable to the Indemnified Party (acting reasonably in assessing acceptability) and shall be liable to pay the fees and expenses of such lawyers related to such proceeding. In any proceeding, the Indemnified Party shall have the right to retain its own lawyers, but the fees and expenses of such lawyers shall be at the expense of the Indemnified Party unless (i) Gazprom and the Indemnified Party shall have mutually agreed to the retention of such lawyers or (ii) the named parties to any such proceeding (including any joined parties) include Gazprom and the Indemnified Party and representation of both parties by the same lawyers (in the reasonable opinion of the Indemnified Party) would be inappropriate due to actual or potential differing interests between them or (iii) pursuant to the previous sentence Gazprom has elected to assume the defence itself but has within a reasonable time after the notification of the institution of such action failed to appoint lawyers as contemplated above or (iv) pursuant to the previous sentence Gazprom has elected not to assume such defence itself and the Indemnified Party has assumed such defence and retained lawyers in respect thereof. It is understood that Gazprom shall reimburse such fees and expenses as they are incurred in respect of (i), (ii), (iii) and (iv) above. Gazprom shall not be liable for any settlement of any such proceeding, claim or demand effected without its written consent (provided that such consent shall not be unreasonably withheld or delayed), but if settled with such consent (or without such consent in circumstances where such consent shall have been unreasonably withheld or delayed as aforesaid) or if there be a final judgment for the Indemnified Party, Gazprom agrees to indemnify the Indemnified Party from and against any loss or liability by reason of such settlement or judgment. Gazprom will not settle any proceeding in respect of which indemnity may be sought pursuant to Clause 12.1 without the written consent of the relevant Indemnified Party, unless such settlement includes an unconditional release of each Indemnified Party from all liability arising out of such proceeding, claim or demand.

12.3 Independent Obligation

Sub-clause 12.1 constitutes a separate and independent obligation of Gazprom from its other obligations under or in connection with each Loan Agreement or any other obligations of Gazprom in connection with the issuance of Notes by the Lender and shall not affect, or be construed to affect, any other provision of a Loan Agreement or any such other obligations.

12.4 Evidence of Loss

A certificate of the Lender, supported by relevant documentation, setting forth the amount of losses, expenses and liabilities described in sub-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.

12.5 Survival

The obligations of Gazprom pursuant to sub-clauses 6.2, 6.3 and 12.1 shall survive the execution and delivery of each Loan Agreement and the drawdown and repayment of the relevant Loan, in each case by Gazprom.

13 Expenses

13.1 Reimbursement of Front-end Expenses

Gazprom shall, pursuant to sub-clause 3.2 hereof and the relevant Loan Supplement, reimburse the Lender in the Specified Currency for all reasonable documented costs and expenses properly incurred by the Lender in connection with the negotiation, preparation and execution of each Loan Agreement. Reimbursement shall be made pursuant to invoices submitted by the Lender to Gazprom.

13.2 Payment of Ongoing Expenses

In addition, Gazprom hereby agrees to pay to the Lender on demand in the Specified Currency all reasonable documented ongoing commissions, costs, fees and expenses (including, without limitation, enforcement costs), payable by the Lender under or in respect of the Lender Agreements. Gazprom shall also reimburse the Lender for any indemnification or other payment obligations of the Lender under or in respect of the Lender Agreements, (other than the obligation of the Lender to make payments of principal, interest or additional amounts in respect of the corresponding Series of Notes). Payments to the Lender referred to in this sub-clause 13.2 shall be made on the basis of an invoice submitted to Gazprom by the Lender and a delivery and acceptance and signed by the parties by Gazprom at least two Business Days before the relevant payment is to be made or expense incurred.

14 General

14.1 Evidence of Debt

The entries made in the relevant Account 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

14.2.1 Gazprom shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed on Gazprom by any Person in the Russian Federation, Luxembourg or the United States of America which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by Gazprom to pay such taxes or similar charges.

14.2.2 Gazprom agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes or similar charges (if any) imposed by any person in the Russian Federation, the United States of America or Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and any documents related thereto as well as Notes of corresponding Series and any documents related thereto, Gazprom shall repay the Lender on demand an amount equal to such stamp or other documentary taxes or duties and shall indemnify the Lender against any and all costs and expenses connected with the payment of such amounts.

14.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or Gazprom, any right, power to privilege under any Loan Agreement and no course of dealing between Gazprom and the Lender 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 provided in each Loan Agreement 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 to each Loan Agreement shall be given or made in the English language by facsimile transmission or otherwise in writing and shall be deemed to have been duly given or made to the party to which such notice, request, demand or other communication is required or permitted to be given or made under such Loan Agreement:

- (a) if by way of hand or courier, when such communications have been signed for or a receipt has been issued or some similar delivery confirmation has been given; and
- (b) if sent by facsimile transmission, when confirmation to its transmission has been recorded by the sender's fax machine at the end of the communication,

such notice, request, demand or other communication to be addressed as follows:

14.4.1 if to Gazprom:

Open Joint Stock Company Gazprom
16 Nametkina Street
117884 Moscow
Russian Federation
Fax: (7 495) 718 6393
Attention: Financial and Economic Department

14.4.2 if to the Lender:

Gaz Capital S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg
Fax: (352) 421 22 718
Attention: The Directors

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

14.5 Assignment

14.5.1 Each Loan 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 such Loan Agreement. Any reference in a Loan Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender or the giving of an opinion by the Lender, following the enforcement of the security and/or assignment referred to in sub-clause 14.5.3 below, shall be references to the exercise of such rights or discretions or the giving of an opinion by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any discussions between the Lender and Gazprom or any agreements of the Lender or Gazprom pursuant to sub-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.

14.5.3 The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under any Loan Agreement except pursuant to (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of the Lender's rights and benefits under such Loan Agreement and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under such Loan Agreement, in each case, pursuant to Clause 6 of the relevant Supplemental Trust Deed.

14.6 Currency Indemnity

To the fullest extent permitted by law, the obligation of Gazprom in respect of any amount due in the Specified Currency under a Loan 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 the Specified Currency that the Lender 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 Lender receives such payment. If the amount in the Specified Currency 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 Lender against any deficiency in the Specified Currency. Any obligation of Gazprom not discharged by payment in the Specified Currency shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided the relevant Loan Agreement, shall continue in full force and effect. If the amount in the Specified Currency that may be purchased exceeds that Due Amount the Lender shall promptly pay the amount of the excess to Gazprom.

14.7 Prescription

Subject to the Lender having received such amounts from Gazprom, the Lender shall forthwith repay to Gazprom as redundant payments the amount equal to the principal amount or the interest amount thereon, respectively, of any Series of Notes upon any Notes of such Series becoming void pursuant to Condition 11 of such Notes. The Lender and Gazprom shall, at such time, enter into an amendment to the relevant Loan Agreement providing for such repayment and the corresponding reduction of the relevant Loan in form satisfactory to Gazprom.

14.8 Contracts (Rights of Third Parties) Act 1999

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

14.9 Choice of Law

Each Loan 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 Lender hereby irrevocably agrees that the courts of England shall have jurisdiction to settle any disputes which may arise out of or in connection with any Loan Agreement and that accordingly any suit, action or proceeding (collectively, "Proceedings") arising out of or in connection with such Loan 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 any Loan 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 such Loan 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 such Loan Agreement to the extent permitted by any applicable law.

14.10.4 Each of the parties hereby agrees that, at the option of the other party, any dispute, controversy, claim or cause of action brought by any party against another party or arising out of or relating to any Loan Agreement may be settled by arbitration in accordance with the Rules of the LCIA (formerly the London Court of International Arbitration) (the "LCIA"), 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 not be interested 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 on 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 LCIA 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 The Lender agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Deutsche Bank Luxembourg S.A., c/o Deutsche Bank AG, London Branch, Winchester House, 1 Great Winchester Street, London EC2N 2DB 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 Lender's behalf, the Lender 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 calendar days, Gazprom shall be entitled to appoint such a person by written notice to the Lender. Nothing in this Clause shall affect the right of Gazprom to serve process in any other manner permitted by law.

14.10.6 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 its registered office being at 41 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 Lender, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 calendar days, the Lender shall be entitled to appoint such a person by written notice to Gazprom. Nothing in this Clause shall affect the right of the Lender to serve process in any other manner permitted by law.

14.10.7 Gazprom irrevocably and unconditionally:

- (i) waives all rights of immunity in respect of it or its assets;
- (ii) agrees not to claim immunity from proceedings brought by the Lender against it in relation to any Loan Agreement and to ensure that no such claim is made on its behalf; and
- (iii) consents generally to the giving of any relief or the issue of any process in connection with these proceedings.

14.11 Counterparts

Each Loan 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.

14.12 Language

The language which governs the interpretation of each Loan Agreement is the English language.

14.13 Amendments

Except as otherwise provided by its terms, each Loan Agreement may not be varied except by an agreement in writing signed by the parties.

14.14 Partial Invalidity

The illegality, invalidity or unenforceability to any extent of any provision of each Loan Agreement under the law of any jurisdiction shall affect its legality, validity or enforceability in such jurisdiction to such extent only and shall not affect its legality, validity or enforceability under the law of any other jurisdiction, nor the legality, validity or enforceability of any other provision.

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

SCHEDULE 1

FORM OF LOAN SUPPLEMENT

This Loan Supplement is made on ● between:

- (1) **GAZ CAPITAL S.A.**, a société anonyme established under the laws of Luxembourg whose registered office is at 2, Boulevard Konrad Adenauer L-1115 Luxembourg, registered with the Register of Commerce and Companies, Luxembourg under number B-95071 (the “**Lender**”) and
- (2) **OPEN JOINT STOCK COMPANY GAZPROM**, a company established under the laws of the Russian Federation whose registered office is at 16 Nametkina Street, 117884 Moscow, Russian Federation (“**Gazprom**”).

Whereas:

- (A) Gazprom has entered into an amended and restated facility agreement dated 7 December 2005 (the “**Facility Agreement**”) with the Lender in respect of Gazprom’s U.S.\$30,000,000,000 Programme for the Issuance of loan participation notes (the “**Programme**”).
- (B) Gazprom proposes to borrow ● (the “**Loan**”) and the Lender wishes to make such Loan on the terms set out in the Facility Agreement and this Loan Supplement.

It is agreed as follows:

1 Definitions

Capitalised terms used but not defined in this Loan Supplement shall have the meaning given to them in the Facility Agreement save to the extent supplemented or modified herein.

2 Additional Definitions

For the purpose of this Loan Supplement, the following expressions used in the Facility Agreement shall have the following meanings:

“**Account**” means the account in the name of the Lender with the Principal Paying Agent (account number ●, ●);

“**Base Prospectus**” means ●;

[“**Calculation Agent**” means Deutsche Bank AG, London Branch;]

“**Closing Date**” means ●;

[“**Early Redemption Amount**” means ● per ● amount of the Loan, plus accrued interest, if any, to the Redemption Date;]

“**Gazprom Account**” means the account in the name of Gazprom (account number ●);

“**Loan Agreement**” means the Facility Agreement as amended and supplemented by this Loan Supplement;

[“**Make Whole Premium**” means the excess, if any (as reported in writing to the Issuer and the Trustee by a reputable financial institution operating in ● market in ● selected by the Issuer and approved in writing by the Trustee (the “**Financial Adviser**”) (and rounded, if necessary, to the third decimal place (0.0005 being rounded upwards)), of (a) the value at the Redemption Date of the principal amount of the Loan, plus all required interest payments that would otherwise be due to be paid on the Loan during the period between the Redemption Date and the Repayment Date, excluding accrued but unpaid interest at the Redemption Date, calculated using a discount rate equal to ● basis points above the Treasury Rate over (b) the outstanding principal amount of the Loan;]

“**Notes**” means ● per cent. [Floating Rate] Loan Participation Notes due ● issued by the Lender as Series ● under the Programme;

[“**Put Settlement Date**” means ●;]

“**Repayment Date**” means ●;

“**Side Letter**” means ●;

“**Specified Currency**” means ●;

“**Subscription Agreement**” means an agreement between the Lender, Gazprom and ● dated ● relating to the Notes;

[“**Treasury Rate**” means a rate equal to the yield, as published by the ●, on actively traded ● with a maturity comparable to the remaining life of the Loan, as selected by the Financial Adviser. If there is no such publication of this yield during the week preceding the calculation date, the Treasury Rate will be calculated by reference to quotations from selected primary ● dealers in ● selected by the Financial Adviser. The Treasury Rate will be calculated on the third day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business generally in ● preceding the Redemption Date; and]

“**Trust Deed**” means the Amended and Restated Principal Trust Deed between the Lender and the Trustee dated 7 December 2005 as amended and supplemented by a Supplemental Trust Deed to be dated on or about ● constituting and securing the Notes.

3 Incorporation by Reference

Except as otherwise provided, the terms of the Facility Agreement shall apply to this Loan Supplement as if they were set out herein and the Facility Agreement shall be read and construed, only in relation to the Loan constituted hereby, as one document with this Loan Supplement.

4 The Loan

4.1 Drawdown

Subject to the terms and conditions of the Loan Agreement, the Lender agrees to make the Loan on the Closing Date to Gazprom and Gazprom shall make a single drawing in the full amount of the Loan on that date.

4.2 Interest

The Loan is a [Fixed Rate][Floating Rate] Loan [and the Notes comprise a Rule 144A Series]. Interest shall be calculated, and the following terms used in the Facility Agreement shall have the meanings, as set out below:

4.2.1. Fixed Rate Loan Provisions

[Applicable/Not Applicable]
(If not applicable, delete the remainingsub-paragraphs of this paragraph)

- (i) Interest Commencement Date: ●
- (ii) Rate[(s)] of Interest: ● per cent. per annum payable [annually/semi-annually] in arrears
- (iii) Interest Payment Date(s): ● in each year
- (iv) Fixed Amount[(s)]: ● per ● in principal amount
- (v) Broken Amount: [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Amount[(s)]]
- (vi) Day Count Fraction (Clause 4.9): [30/360/Actual/Actual (ICMA/ISDA)/ other]
- (vii) Determination Date(s) (Clause 4.9): ● in each year. [Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual Actual (ICMA)]
- (viii) Other terms relating to the method of calculating interest for Fixed Rate Loans: [Not Applicable/give details]

4.2.2. Floating Rate Loan Provisions

[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Interest Commencement Date: ●
- (ii) Interest Period(s): ●

- (iii) Specified Interest Payment Dates: ●
- (iv) Business Day Convention: [Floating Rate Business Day Convention/ Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
- (v) Business Centre(s) (Clause 4.9): ●
- (vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/ other (*give details*)]
- (vii) Interest Period Date(s): [Not Applicable/*specify dates*] (*will be not applicable unless different from Interest Payment Date*)
- (viii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):
- (ix) Screen Rate Determination (Clause 4.3.3):
 - Reference Rate:
 - Interest Determination Date(s):
 - Relevant Screen Page:
- (x) ISDA Determination (Clause 4.3):
 - Floating Rate Option:
 - Designated Maturity:
 - Reset Date: ●
- (xi) Margin(s): [+/–]● per cent. per annum
- (xii) Minimum Rate of Interest: ● per cent. per annum
- (xiii) Maximum Rate of Interest: ● per cent. per annum
- (xiv) Day Count Fraction (Clause 4.9): ●
- (xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Loans, if different from those set out in the Facility Agreement: ●

4.2.3. Put/Call Options

[Put Option/Call Option/Not Applicable]

5 Fees and Expenses

Pursuant to Clause 3.2 of the Facility Agreement and in consideration of the Lender making the Loan to Gazprom, Gazprom hereby agrees that it shall, one Business Day before the Closing Date, pay to the Lender, in Same-Day Funds, the amount of the reasonably documented reimbursable expenses incurred by the Lender in connection with such Loan, [which expenses shall include the amount of all of the commissions, fees, costs and expenses as set forth in sub-clauses [5.1] and [5.2] of the Subscription Agreement, paragraphs 1 and 4 of the Fee Side Letter and sub-clauses 3.2 and 13.1 of the Facility Agreement] pursuant to an invoice submitted by the Lender to Gazprom in the total amount of ●.

6 Governing Law

This Loan Supplement shall be governed by and construed in accordance with English law. This Loan Supplement has been entered into on the date stated at the beginning.

SCHEDULE 2

FORM OF OFFICERS' CERTIFICATE

To: Gaz Capital S.A.
Deutsche Bank Trust Company Americas
From: Open Joint Stock Company Gazprom

Dated:

Dear Sirs

Open Joint Stock Company Gazprom-U.S.\$30,000,000,000 Amended and Restated Facility Agreement dated 7 December 2005 (the "Loan Agreement")

- 1 We refer to the Loan Agreement. This is an Officers' Certificate for the purposes of Clause 11.2 of the Loan Agreement.
- 2 We confirm that no Potential Event of Default or Event of Default has occurred since the date of our last certification, or if none, the Closing Date⁽¹⁾.

Terms used but not defined herein shall have the meanings given to them in the Loan Agreement.

For and on behalf of Open Joint Stock Company Gazprom

Signed:

..... [principal executive officer/ principal accounting officer/principal financial officer] of Open Joint Stock Company Gazprom [officer] of Open Joint Stock Company Gazprom
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(1) If this statement cannot be made, the certificate should identify any Potential Event of Default or Event of Default that is continuing and the steps, if any, being taken to remedy it.

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 (subject to completion and amendment in accordance with the provisions of Part A of the relevant Final Terms) will be attached to the Notes in definitive form, if issued, and (subject to the provisions thereof) apply to the Global Notes representing each Series. Either (i) the full text of these terms and conditions together with Part A of the relevant provisions of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Final Terms. Those definitions will be endorsed on the definitive Notes. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by, are subject to, and have the benefit of, a supplemental trust deed dated the Issue Date specified hereon (the “**Supplemental Trust Deed**”) supplemental to an amended and restated principal trust deed (as further amended or supplemented as at the Issue Date, the “**Principal Trust Deed**”) dated December 7, 2005, each made between Gaz Capital S.A. (the “**Issuer**”) and Deutsche Bank Trust Company Americas (the “**Trustee**”, which expression shall include any trustee or trustees for the time being under the Trust Deed) as trustee and successors thereof for the holders of the Notes (the “**Noteholders**”). The Principal Trust Deed and the Supplemental Trust Deed as modified from time to time 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, are together referred to as the “**Trust Deed**”.

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a loan (the “**Loan**”) as specified hereon to Open Joint Stock Company Gazprom (the “**Borrower**”). The Issuer and the Borrower have recorded the terms of the Loan in an amended and restated facility agreement (the “**Facility Agreement**”) dated December 7, 2005, as supplemented on the Issue Date specified hereon by a loan supplement (the “**Loan Supplement**”) each between the Issuer and the Borrower (together, the “**Loan Agreement**”).

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 Issuer 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 sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement.

The Issuer has charged by way of first fixed charge in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations in respect of the Notes and under the Trust Deed (a) all principal, interest and other amounts payable by Gazprom to the Issuer as lender under the Loan Agreement, (b) the right to receive all sums which may be or become payable by Gazprom under any claim, award or judgment relating to the Loan Agreement and (c) all the rights, title and interest in and to all sums of money now or in the future deposited in an account with Deutsche Bank AG, London Branch in the name of the Issuer (the “**Account**”) and debts represented thereby, including interest from time to time earned on the Account (other than any rights and benefits constituting Reserved Rights and amounts relating to the Reserved Rights (as defined in the Trust Deed)) (the “**Charge**”) and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (the “**Assignment**” and together with the Charge, the “**Security Interests**”). At any time following the occurrence of an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined in the Trust Deed) and subject as provided in the Trust Deed and Condition 9, 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 Security Interests).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Borrower) pursuant to, an amended and restated paying agency agreement (the “**Agency Agreement**”) dated December 7, 2005 and made between the Issuer, Deutsche Bank Luxembourg S.A. as paying agent and Luxembourg registrar, Deutsche Bank Trust Company Americas as paying agent and U.S. registrar (together with Deutsche Bank Luxembourg S.A. in such capacity, each a “**Registrar**”, which expressions shall include any successors), Deutsche Bank AG, London Branch as

the principal paying agent (the “**Principal Paying Agent**”) and calculation agent, Deutsche International Corporate Services (Ireland) Limited as paying agent and Deutsche Bank AG, London Branch and Deutsche Bank Luxembourg S.A. as transfer agents (the “**Transfer Agents**”), which expressions shall include any additional or successor transfer agents), the Borrower and the Trustee.

Copies of the Trust Deed, the Loan Agreement, the Agency Agreement and the Final Terms are available for inspection at the principal office of the Trustee being, at the date hereof, at 60 Wall Street, New York, NY 10005, United States of America, at the specified office of the Principal Paying Agent and at the specified office of the Paying Agent in Ireland.

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 Final Terms, 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 of the Trust Deed and certain provisions of the Agency Agreement.

All capitalised terms used but not otherwise defined in these Terms and Conditions have the meanings given to them in the Trust Deed.

1 Status

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer 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 other amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of Reserved Rights.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or other 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 Issuer 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, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off or counterclaim that may arise out of other transactions between the Issuer or the Trustee and the Borrower.

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

- 1.1** neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph 1.6 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 other amounts) due or to become due from the Borrower under the Loan Agreement;
- 1.2** neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of the Borrower;
- 1.3** neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;
- 1.4** neither the Issuer 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;
- 1.5** 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 to make payments under the Loan Agreement and its credit and financial standing. The Borrower has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes a legal, valid and binding obligation of the Borrower; and

- 1.6 the Issuer and the Trustee shall be entitled to rely on a certificate signed by a duly authorised officer of the Borrower confirming that 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 Issuer 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.
- 1.7 Under the Trust Deed, the obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.
- 1.8 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 Issuer in respect of the Notes.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer'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 Assigned Rights granted to the Trustee in the Trust Deed. Neither the Issuer 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 to its satisfaction.

2 Form, Denomination and Title

The Notes will be issued in fully registered form, and in the Specified Denomination shown hereon or integral multiples thereof, without interest coupons; provided that the Rule 144A Notes shall be held in amounts of not less than U.S.\$100,000 and further provided that all Notes will have a minimum Specified Denomination of €50,000 (or its equivalent in any other currency as at the date of issue of those Notes).

So long as the Notes are represented by a Global Note and the relevant clearing system(s) so permit, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided hereon and integral multiples of the Tradeable Amounts in excess thereof provided in the relevant Final Terms.

A Note issued under the Principal Trust Deed may be a Fixed Rate Note, a Floating Rate Note, a combination of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis specified hereon.

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 Covenants

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the 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 Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee shall not, *inter alia*, incur any other indebtedness for borrowed moneys, engage in any other business (other than acquiring and holding the Charged Property in respect of each Series, issuing Notes, entering into Loans and performing any act incidental to or necessary in connection with the foregoing), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in these conditions and the Trust Deed), issue any shares, give any guarantee or assume any other liability, or subject to the laws of Luxembourg, petition for any winding-up or bankruptcy.

5 Interest

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest specified hereon which shall be equal to the rate per annum at which interest under the Loan accrues. Accordingly, on each Interest Payment Date the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement.

If a Fixed Coupon Amount or a Broken Amount is specified hereon, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified hereon.

(b) **Interest on Floating Rate Notes:**

(i) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified hereon, which shall be equal to the rate per annum at which interest under the Loan accrues, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon,

Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. Accordingly, on each such date, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement.

- (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.
 - (iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and as set out in the Loan Agreement.
- (c) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).
 - (d) **Calculations:** The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of such Note by the Day Count Fraction as specified hereon and in the Loan Agreement, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.
 - (e) **Publication of Rates of Interest and Interest Amounts:** The Calculation Agent shall, as soon as practicable after calculating or determining the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date as set out in the Loan Agreement, cause such Rate of Interest and Interest Amounts to be notified to the Trustee, the Issuer, Gazprom, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed and/or admitted to trading on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Clause 11 of the Facility Agreement, the accrued

interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

- (f) **Determination or Calculation by Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount pursuant to the Loan Agreement, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply or shall have applied the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

6 Redemption

Unless previously prepaid or repaid pursuant to Clause 5.2 or 5.3 of the Facility Agreement, the Borrower will be required to repay the Loan one Business day prior to its Repayment Date (as defined in the Loan Agreement) and, subject to such repayment, as set forth in the Loan Agreement, all the Notes then remaining outstanding will be redeemed or repaid by the Issuer in the relevant Specified Currency on the Maturity Date specified hereon at their Final Redemption Amount (which, unless otherwise specified hereon, is 100% of the principal amount thereof).

If the Loan should become repayable (and be repaid) pursuant to the Loan Agreement prior to its Repayment Date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at their Early Redemption Amount (which, unless otherwise specified hereon is par together with interest accrued to the date of redemption) and the Issuer will endeavour to give not less than eight days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

To the extent that the Issuer receives amounts of principal, interest or other amounts (other than amounts in respect of the Reserved Rights) following acceleration of the Loan pursuant to Clause 11 of the Loan Agreement, the Issuer shall pay an amount equal to and in the same currency as such amounts on the Business Day following receipt of such amounts, subject as provided in Condition 7.

The Issuer, subject to the Borrower's written consent (which consent shall not be unreasonably withheld or delayed), may compel any beneficial owner of Notes initially sold pursuant to Rule 144A under the U.S. Securities Act of 1933, as amended (the "Securities Act") to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is a U.S. person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and also a qualified purchaser (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940).

If Call Option is specified hereon, then pursuant to Clause 5.5 of the Facility Agreement and the relevant Loan Supplement, the Borrower may, at its option at any time prior to the Repayment Date specified hereon on giving not less than 30 nor more than 60 days' irrevocable notice to the Issuer, in whole or in part, repay the Loan at the Early Redemption Amount specified hereon plus the Make Whole Premium specified hereon (the "**Call Option**"). The notice to be given (the "**Call Option Notice**") shall specify the date for repayment of the Loan and the date for the redemption of the Notes (the "**Call Redemption Date**"), which shall be the next following Business Day after the date for repayment of the Loan. Immediately on receipt of the Call Option Notice, the Issuer shall forward it to the Noteholders, the Trustee and the Principal Paying Agent. If the Loan should become repayable following exercise of the Call Option by the Borrower (and be repaid) prior to the Repayment Date, the Notes will thereupon become due and repayable and the Issuer shall, subject to receipt of such amounts from the Borrower under the Loan, redeem the Notes on the Call Redemption Date. In the case of a partial redemption, the Notes shall be redeemed *pro rata* and otherwise in such manner as the Trustee deems appropriate, subject to compliance with any applicable laws and

stock exchange or other regulatory requirements. The Issuer's obligations in respect of this Condition to redeem and make payment for the Notes shall constitute an obligation only to account to Noteholders on the Redemption Date for an amount equivalent to the sums received by or for the account of the Issuer pursuant to the Loan Agreement.

If Put Option is specified hereon, the Issuer shall, at the option of any Noteholder redeem such Note on the Put Settlement Date specified hereon (the "**Put Option**") at its principal amount together with accrued interest. To exercise such option a Noteholder must deposit the Note or Notes to be redeemed with any Paying Agent together with a duly completed put redemption notice in the form obtainable from any of the Paying Agents, not more than 60 but not less than 30 days prior to the Put Settlement Date. No Note so deposited may be withdrawn. Provided, however, that if, prior to the Put Settlement Date, a Relevant Event has occurred or, upon due presentation of any Note on the Put Settlement Date, payment of the redemption moneys is improperly withheld or refused, such Note shall, without prejudice to the exercise of the Put Option, be returned to the Noteholder by uninsured first class mail (airmail if overseas) at such address as may have been given by such Noteholder in the relevant Put Option Notice. The Issuer shall notify the Borrower, not more than three Business Days after receipt of notice thereof from the Paying Agent, of the amount of the Loan to be prepaid as a consequence of the exercise by Noteholders of the option contained in this Condition 6. Subject to timely receipt of the relevant amounts from the Borrower under the Loan Agreement, the Issuer shall redeem the Notes in accordance with this Condition 6 on the Put Settlement Date, subject as provided in Condition 7.

7 **Payments and Agents**

Payments of principal shall be made against presentation and surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of any Transfer Agent or of the Registrar and in the manner provided in the paragraph below.

Interest shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest shall be made in the Specified Currency by cheque drawn on a bank in the principal financial centre for the Specified Currency or, in the case of euro, in a city in which banks have access to the TARGET System (a "**Bank**") and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank, or by transfer to an account in the Specified Currency maintained by the payee with a Bank in the principal financial centre of such Specified Currency or in the case of euro, a Bank specified by the payee or at the option of the payee, by a euro-cheque and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying 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 principal is not a business day, a Noteholder shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "business day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "Financial Centres" hereon, and (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or (ii) (in the case of a payment in euro) which is a TARGET Business Day.

The names of the initial Paying Agents and their initial specified offices are set out below. The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent or any of the Paying Agents, and appoint additional or other paying agents provided that (i) so long as the Notes are listed and/or admitted to trading on any stock exchange or market or admitted to listing by any other relevant authority, there will be a paying agent and transfer agent with a

specified office in such place as may be required by the rules and regulations of the relevant stock exchange or market or other relevant authority and (ii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to such Directive. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the Noteholders in accordance with Condition 14.

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 Issue Date as specified hereon shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

Save as otherwise directed by the Trustee at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to Clause 6 of the Agency Agreement require the Borrower to make all payments of principal and interest to be made pursuant to the Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer (the "Account"). Under the Charge, the Issuer 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 the 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 Issuer 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 Russian Federation or Luxembourg or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law.

In such event, the Issuer 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 but only to the extent and only at such time as the Issuer receives an equivalent amount from the Borrower under the Loan Agreement. To the extent that the Issuer receives a lesser additional amount from the Borrower, the Issuer will account to each 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 Issuer pursuant to 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 Issuer provided that no such additional amount will be payable in respect of any Note:

- 8.1** to a Noteholder who (a) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable for such taxes or duties by reason of his having some connection with the Russian Federation or Luxembourg other than the mere holding of such Note or the receipt of payments in respect thereof;
- 8.2** in respect of a Note presented for payment of principal more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on such 30th day;
- 8.3** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- 8.4** in respect of a Note presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

As used herein, "**Relevant Date**" (i) means the date on which any 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 Issuer pursuant to the Loan Agreement on or prior to

such date, it means the date on which such moneys shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any other 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 Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing.

At any time after an Event of Default (as defined in the Facility Agreement) or of a Relevant Event (as defined in the Trust Deed) has occurred and is continuing, the Trustee may, at its discretion and without notice 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, institute such proceedings as it may think fit to enforce the rights of the Noteholders and the provisions of the Trust Deed, including to 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 at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

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

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, the Loan Agreement 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 Issuer 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 Issuer may, and at the request of the Borrower shall, having obtained the consent of the Borrower (if such substitution is not to be made at the request of the Borrower) and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such reasonable requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity

in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the 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 Issuer 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 10 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 is entitled to enter into contracts or transactions with the Issuer and/or the Borrower and any entity related to the Issuer and/or the Borrower without accounting for any profit, fees, corresponding interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

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 Issuer of its obligations under or in respect of the Notes and the Trust Deed or by the Borrower in respect of the Loan Agreement.

The Trustee has no obligation to take any action (or step) which would or might in its opinion result in it incurring liabilities of any nature unless it is indemnified to its satisfaction in respect of the same and in forming any such opinion the Trustee shall be entitled to rely on legal advice or other advice received by it (as provided for by the Trust Deed) as to the existence and extent of such liabilities without liability to Noteholders for so doing regardless of whether and the extent to which the taking of any action or step by the Trustee is thereby delayed.

Nothing contained in these Conditions shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of any right, power, authority or discretion hereunder if it has reasonable grounds for believing the repayment of such funds or adequate indemnity against, or security for, such risk or liability is not reasonably assured to it.

13 Replacement of Notes

If any Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and stock exchange requirements, be replaced at the specified office of any Registrar or the Paying Agent in Ireland on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Notes must be surrendered before replacements will be issued.

14 Notices

All notices to the Noteholders shall be deemed to have been duly given if (i) posted to such holders at their respective addresses as shown on the Register and (ii) so long as the Notes are listed and/or admitted to trading on the Irish Stock Exchange and the rules of that exchange so

require, published in a daily newspaper of general circulation in Ireland approved by the Trustee, currently expected to be The Irish Times. 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 Issuer 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 amount and the date of the first payment of interest) so as to be consolidated and form a single series with the Notes. Such further Notes shall be constituted by a deed supplemental to the Trust Deed between the Issuer and the Trustee. 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. In relation to any further issue which is to be consolidated and form a single series with the Notes, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with the Borrower on substantially the same terms as the Loan Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Notes). The Issuer will provide a further fixed charge in favour of the Trustee in respect of certain of its rights and interests under such loan agreement and will assign absolutely certain of its rights under such loan agreement which will secure both the Notes and such further Notes and which will supplement the Security Interests in relation to the existing Notes of such Series.

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, the Agency Agreement and the Trust Deed are governed by, and shall be construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the exclusive jurisdiction of the courts of England and has appointed an agent for the service of process in England. The provisions of articles 86 to 94-8 of the Luxembourg law of 10 August 1915, as amended, on commercial companies are excluded.

There will appear at the foot of the Conditions endorsed on or (as the case may be) attached to each Definitive Note and the Global Notes the names and Specified Offices of the Registrars, the Paying Agents and the Transfer Agents as set out at the end of this Base Prospectus.

GAZ CAPITAL S.A.

Gaz Capital S.A. (the “Issuer”) was incorporated as a *société anonyme* on July 23, 2003 for an unlimited duration with limited liability under the laws of the Grand Duchy of Luxembourg. Its Articles of Incorporation have been published in the Mémorial, Recueil des Sociétés et Associations on August 21, 2003. It is registered with the Register of Commerce and Companies, Luxembourg under number B 95 071.

The Issuer’s registered office is located at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, and its telephone number is +352 421 22 243.

The Issuer is a special purpose vehicle whose subscribed share capital amounts to euro 31,000 divided into 31 registered shares with a par value of euro 1,000 each. All of the shares are fully paid up. Thirty shares are owned by Stichting Gaz Capital and one share by Stichting Participatie DITC Amsterdam.

The Issuer has a Board of Directors, currently consisting of three directors. The directors at present are:

- Rolf Caspers, banker, having his professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg;
- Anja Lakoudi, employee, having her professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg; and
- Heike Kubica, employee, having her professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg.

Deutsche Bank Luxembourg S.A. is the domiciliation agent of the Issuer. Its duties include the provision of certain administrative and related services. It may terminate its appointment at any time upon giving not less than two months prior notice in writing, provided that any such termination shall not be effective until a replacement acceptable to the Issuer and the Trustee has been suggested by Deutsche Bank Luxembourg S.A.

The corporate object of the Issuer, as described in Article 3 of its Articles of Incorporation, is:

- the issue of Notes and other debt securities under the programme for the purpose of financing Loans to Gazprom;
- the granting of Loans to Gazprom;
- the granting of Security Interests over its assets to the Trustee in relation to the issuance of Notes; and
- the making of deposits at banks or with other depositaries.

The Issuer may carry out any transactions, whether commercial or financial which are directly or indirectly connected with its corporate objective at the exclusion of any banking activity.

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

PricewaterhouseCoopers S.à r.l., having its registered office at 400, Route d’Esch, B.P. 1443, L-1014, Luxembourg was appointed to act as auditor of the Issuer for the years ended December 31, 2005 and 2006. PricewaterhouseCoopers S.à r.l. is a member of the Luxembourg body of registered auditors (“*Institut des Réviseurs d’Entreprises*”).

Annual Accounts

The Issuer’s fiscal year ends on December 31 of each year. The Issuer’s audited financial statements as of and for the two years ended December 31, 2006 and 2005 were prepared in accordance with Luxembourg legal and regulatory requirements and are included elsewhere in this Base Prospectus. See “General Information” for further details.

TRANSFER RESTRICTIONS

Rule 144A Notes

Each purchaser of Rule 144A Notes within the United States, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is (a) a qualified institutional buyer within the meaning of Rule 144A (a “QIB”) that is also a qualified purchaser as defined in Section 2(a)(51) of the Investment Company Act (a “QP”), (b) not a broker-dealer which owns and invests on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acting for its own account, or for the account of a QIB that is also a QP, (e) not formed for the purpose of investing in the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.
- (2) It will, (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than U.S.\$100,000 and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories.
- (3) It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State or another jurisdiction of the United States.
- (4) It understands that the Issuer has the power under the Trust Deed and Condition 6 to compel any beneficial owner of Rule 144A Notes that is a U.S. person and is not a QIB and also a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honor the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and a QP.
- (5) It understands that the Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE LOAN IN RESPECT HEREOF HAVE NOT BEEN AND WILL NOT 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 MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A “QIB”) THAT IS ALSO A QUALIFIED PURCHASER AS DEFINED IN THE INVESTMENT COMPANY ACT OF 1940 (A “QP”) THAT (A) IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS, (B) IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN, (C) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OF THIS NOTE, (D) IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QP, IN A PRINCIPAL AMOUNT THAT IS NOT LESS THAN U.S.\$100,000, (E) UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES AND (F) WILL PROVIDE NOTICE OF THESE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE, OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. A TRANSFER IN VIOLATION OF THE

FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. THE ISSUER, SUBJECT TO THE BORROWER'S (AS DEFINED IN THE TRUST DEED) WRITTEN CONSENT (WHICH CONSENT SHALL NOT BE UNREASONABLY WITHHELD OR DELAYED) HAS THE RIGHT UNDER THE TRUST DEED TO COMPEL ANY BENEFICIAL OWNER THAT IS A U.S. PERSON AND IS NOT A QIB AND A QP TO SELL ITS INTEREST IN THIS NOTE, OR MAY SELL SUCH INTEREST ON BEHALF OF SUCH BENEFICIAL OWNER. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOR A TRANSFER OF AN INTEREST IN THIS NOTE TO A U.S. PERSON WHO IS NOT A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940.

EACH BENEFICIAL OWNER HEREOF REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT AND WILL NOT BE (A) AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”) THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A PLAN TO WHICH SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED APPLIES OR (C) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (A) OR (B) ABOVE OR OTHERWISE, (2) IF IT IS A GOVERNMENTAL PLAN, AS DEFINED IN SECTION 3(32) OF ERISA, THE PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST HEREIN DOES NOT VIOLATE ANY STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR ANY OTHER LEGAL AUTHORITY APPLICABLE TO SUCH GOVERNMENTAL PLAN AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON.

- (6) At the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) it is not and will not be (i) an employee benefit plan as described in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, (ii) a plan to which Section 4975 of the U.S. Tax Code applies, or (iii) an entity whose underlying assets include plan assets by reason of an investment in the entity by a person described in (i) or (ii) above or otherwise, (b) if it is a governmental plan, as defined in Section 3(32) of ERISA, the purchase and holding of the Notes or any interest therein does not violate any statute, regulation, administrative decision, policy or any other legal authority applicable to such governmental plan and (c) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations and warranties from that person.
- (7) It acknowledges that the Issuer, Gazprom, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, Gazprom and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.
- (8) It understands that the Rule 144A Notes will be evidenced by a global Note (the “Rule 144A Global Note”). Before any interest in the Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Regulation S Notes outside the United States and each subsequent purchaser of Regulation S Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Base Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, Gazprom or a person acting on behalf of such an affiliate.
- (2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or the account of a QIB that is also a QP or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (3) It understands that the Regulation S Notes will be evidenced by a global Note (the "Regulation S Global Note"). Before any interest in the Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.
- (4) It acknowledges that the Issuer, Gazprom, the Registrar, the Dealers and their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer, Gazprom and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.
- (5) At the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) it is not (i) an employee benefit plan as described in Section 3(3) of ERISA that is subject to the provisions of Title I of ERISA, (ii) a plan to which Section 4975 of the U.S. Tax Code applies or (iii) an entity whose underlying assets include plan assets by reason of an investment in the entity by a person described in (i) or (ii) above or otherwise, (b) if it is a governmental plan, as defined in Section 3(32) of ERISA, the purchase and holding of the Notes or any interest therein does not violate any statute, regulation, administrative decision, policy or any other legal authority applicable to such governmental plan and (c) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations and warranties from that person.

CLEARING AND SETTLEMENT

The Global Notes

Each Series of Notes will be evidenced on issue by a Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and, in the case of Rule 144A Notes, a Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See “—Book-Entry Procedures for the Global Notes.” By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person, and that, if it determines to transfer such beneficial interest prior to the expiration of the 40 day distribution compliance period, it will transfer such interest only to a person whom the seller reasonably believes (a) to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) to be a person who takes delivery in the form of an interest in a Rule 144A Global Note (if applicable). See “Transfer Restrictions.” Beneficial interests in a Rule 144A Global Note may only be held through DTC at any time. See “—Book-Entry Procedures for the Global Notes.” By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Trust Deed. See “Transfer Restrictions.”

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Trust Deed, and with respect to Rule 144A Notes, as set forth in Rule 144A, and the Notes will bear the legends set forth thereon regarding such restrictions set forth under “Transfer Restrictions.” A beneficial interest in a Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note in denominations greater than or equal to the minimum denominations applicable to interests in a Rule 144A Global Note and only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) from the transferor to the effect that the transfer is being made to a non-U.S. person and in accordance with Regulation S.

Any beneficial interest in a Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the “Definitive Notes”). The Notes are not issuable in bearer form.

So long as the Notes are represented by a Global Note and the relevant clearing system(s) so permit, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) and integral multiples of the Tradeable Amount in excess thereof specified in the relevant Final Terms.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

- *Payments.* Payments of principal and interest in respect of Notes evidenced by a Global Note will be made against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes.
- *Notices.* So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes provided that for so long as the Notes are listed and admitted to trading on the Irish Stock Exchange Limited and the guidelines of the Irish Stock Exchange Limited so require, notices will also be published in a leading newspaper having general circulation in Ireland (which is expected to be *The Irish Times*).
- *Meetings.* For the purposes of any meeting of Noteholders, the holder of each Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as being entitled to one vote in respect of each integral currency unit of the specified currency of the Notes.
- *Trustee Powers.* In considering the interests of Noteholders while the Global Notes are held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to each Global Note and may consider such interests as if such accountholders were the holders of any Global Note.
- *Cancellation.* Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive form if: (i) a Global Note is held by or on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 which would not be suffered were the Notes in definitive form and a notice to such effect signed by two directors of the Issuer or by any person(s) empowered by the board of directors of the Issuer to sign on behalf of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or the Transfer Agent and the Noteholders of its intention to exchange the relevant Global Note for Definitive Notes on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the holder of a Global Note may surrender such Global Note to or to the order of the Registrar or Transfer Agent. In exchange for such Global Note, as provided in the Paying Agency Agreement, the Registrar will deliver or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in Part 1 of Schedule 2 of the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Notes for a period of 15 calendar days ending on the due date for any payment of

principal or interest in respect of the Notes; provided that any such transfer shall be made in accordance with the Trust Deed.

“Exchange Date” means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Borrower (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under “Transfer Restrictions.”

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under “Transfer Restrictions,” or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-Entry Procedures for the Global Notes

For each Series of Notes evidenced by both a Regulation S Global Note and a Rule 144A Global Note, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See “—Settlement and Transfer of Notes.”

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (“Direct Participants”) or indirectly (“Indirect Participants” and together with Direct Participants, “Participants”) through organizations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a “banking organization” under the laws of the State of

New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerized book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Global Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “—Exchange for Definitive Notes,” DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note representing Regulation S Notes of any Series will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

DTC

The Rule 144A Global Note representing Rule 144A Notes of any Series will have an ISIN, Common Code and a CUSIP number and will be deposited with a custodian (the “Custodian”) for and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under such Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depository by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants’ or accountholders’ accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "Beneficial Owner") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement ("SDFS") system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg account holder wishing to purchase a beneficial interest in a Regulation S Global Note (subject to the certification procedures provided in the Paying Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg account holder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant account holder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the Paying Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depository for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depository for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by a Regulation S Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Closing Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant Closing Date should consult their own advisors.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an Amended and Restated Dealer Agreement dated December 7, 2005 (the “Dealer Agreement”) between the Issuer, Gazprom, the Permanent Dealers and the Arrangers, the Notes will be offered from time to time by the Issuer to the Permanent Dealers or such other Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the Relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Series that may be jointly and severally underwritten by two or more Dealers.

Each of the Issuer and Gazprom has agreed to indemnify the Dealers against certain losses, as set out in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

United States

The Notes and the corresponding Loans have not been and will not be registered under the Securities Act, the securities laws of any State or other jurisdiction of the United States or the securities laws of any other jurisdiction. Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that:

- the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act or in transactions not subject to those registration requirements; and
- except as permitted by the Dealer Agreement it will not offer or sell the Notes of any Series (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Series of which such Notes are a part, as determined and certified to the Principal Paying Agent by such Dealer (or, in the case of such Series of Notes sold to or through more than one Dealer on a syndicated basis, by any Dealer acting as lead manager), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

Terms used in this section have the meanings given to them by Regulation S.

Notes offered and sold outside the United States to non-U.S. persons may be sold in reliance on Regulation S. The Dealer Agreement provides that the Dealers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to persons whom they reasonably believe are QIBs that are also QPs who can represent that (a) they are QPs who are QIBs within the meaning of Rule 144A; (b) they are not broker-dealers who own and invest on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers; (c) they are not a participant-directed employee plan, such as a 401(k) plan; (d) they are acting for their own account, or the account of another QIB who is a QP; (e) they are not formed for the purpose of investing in the Issuer; (f) each account for which they are purchasing will hold and transfer at least U.S.\$100,000 in principal amount of Notes at any time; and (g) they will provide notice of the transfer restrictions set forth in this Base Prospectus to any subsequent transferees.

In addition, until 40 days after commencement of the offering of any identifiable Series of Notes, an offer or sale of such Notes within the United States by a dealer that is not participating in

the offering of such Series of Notes may violate the registration requirements of the Securities Act, if such offer or sale is made otherwise than in accordance with Rule 144A.

This Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States, the resale of the Notes in the United States and for the listing of Notes on the Irish Stock Exchange. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States or to any U.S. person other than any QIB who is also a QP (a “QIB/QP”) and to whom an offer has been made directly by one of the Dealers or its U.S. broker-affiliate. Distribution of this Base Prospectus by any non-U.S. person outside the United States or by any QIB/QP in the United States to any U.S. person or to any other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-U.S. person or QIB/QP with respect thereto, is unauthorized and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-U.S. person or QIB/QP, is prohibited.

United Kingdom

Each Dealer has represented and agreed that (i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by the Issuer, (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 FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer, 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.

Russian Federation

Each Dealer has represented and agreed that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter any Notes to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

General

Each Dealer has agreed that it has, to the best of its knowledge and belief, complied and will comply with applicable laws and regulations in each jurisdiction in which they offer, sell or deliver Notes or distribute this Base Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or Gazprom.

These selling restrictions may be modified by the agreement of the Issuer, Gazprom and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

TAXATION

Prospective purchasers of the Notes are advised to consult their own tax advisors as to the consequences under the tax laws of the country of which they are residents of a purchase of Notes, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of Notes. The following is a general description of certain tax laws relating to the Notes and the Loans 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 any Series of the Notes as well as taxation of interest payments on any corresponding Loan. The summary is based on the laws of Russia in effect on the date of this Prospectus. The summary does not seek to address 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 availability of double tax treaty relief in respect of any Series of the Notes, or practical difficulties involved in claiming such double tax treaty relief.

Prospective investors should consult their own tax advisors regarding tax consequences in respect of investing in the Notes in their own particular circumstances. No representation with respect to Russian tax consequences relevant to any particular Noteholder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty and lack interpretive guidance. Further, the substantive provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets and tax systems.

In practice, interpretation by different tax inspectorates may be inconsistent or contradictory, and may result in imposition of conditions, requirements or restrictions not stated by the law. Similarly, in the absence of binding precedent, court rulings on tax or other related matters by different courts relating to the same or similar circumstances may be also inconsistent or contradictory.

For the purposes of this summary, a “**Non-Resident Noteholder**” means:

- an individual Noteholder (“Non-Resident Noteholder – Individual”) who does not satisfy the criteria for being a Russian tax resident as defined below; or
- a legal entity or an organisation in each case not organised under Russian law which holds and disposes of the Notes otherwise than through a permanent establishment in Russia (“Non-Resident Noteholder – Legal Entity”).

For the purposes of this summary, a “**Resident Noteholder**” means:

- an individual Noteholder who is present in Russia for an aggregate period of 183 days or more (excluding days of arrival into Russia but including days of departure from Russia) in any period comprised of 12 consecutive months. Presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education;
- a legal entity or an organisation, in each case organised under Russian law, that holds and disposes of the Notes; or
- a legal entity or an organisation, in each case organised under a foreign law, that holds and disposes of the Notes, where such disposition is attributable to its permanent establishment in Russia.

For the purposes of this summary, the definitions of “Resident Noteholder” and “Non-Resident Noteholder” in respect of individuals are taken at face value based on the wording of the tax law as currently written. In practice however the application of the above formal residency definition may differ based on the position of the tax authorities. The law is currently worded in a way that implies the potential for a split year residency for individuals. However the tax authorities have expressed the view that an individual should be either resident or non-resident in Russia for the full year and consequently even where the travel pattern dictates differing residency status for a part of the tax year, the application of the residency tax rate may in practice be disallowed. This situation may be

altered by amendments to other articles of the Tax Code dealing with taxation of individuals. Russia's rights on taxation may be affected by the applicable double tax treaty.

Russian tax treatment of interest payments made by Gazprom to the Issuer or to the Trustee under any Loan Agreement may affect the Noteholders. See "Taxation of Interest on the Loans" below.

Non-Resident Noteholders

Taxation of the Notes

A Non-Resident Noteholder should not be subject to any Russian taxes in respect of payments of interest and repayments of principal on the Notes received from the Issuer.

A Non-Resident Noteholder generally should not be subject to any Russian taxes in respect of any gain or other income realised on redemption, sale or other disposition of the Notes outside Russia, provided that proceeds from such disposition are not received from a source within Russia. However, in absence of a clear definition of what constitutes income from sources within Russia in case of sale of securities, there is a risk that income from disposition of the Notes may be considered as received from Russian sources.

In the event that proceeds from disposition of the Notes are received from a source within Russia, a Non-Resident Noteholder – Legal Entity should not be subject to any Russian tax on any gain on sale or other disposition of the Notes, although there is some residual uncertainty regarding the treatment of the portion of the proceeds, if any, from disposition of the Notes that is attributable to accrued interest on the Notes. Subject to reduction or elimination under provisions of an applicable double tax treaty that are related to interest income, proceeds attributable to accrued interest may be taxed at the rate of 20 per cent., even if disposition of the Notes results in a capital loss.

Subject to any available tax treaty relief, if receipt of any gains by a Non-Resident Noteholder-Individual is treated as Russian-source income for personal income tax purposes and, as such, will be subject to Russian personal income tax at the rate of 30 per cent. on the gross amount of proceeds received less any available duly documented cost deduction (including the original purchase price). In certain circumstances if proceeds from disposition are paid by a licensed broker or an asset manager that is a Russian legal entity or organisation, or any other person, including a foreign company with a permanent establishment or any registered presence, in Russia or by an individual entrepreneur located in Russia, who carries out operations under an agency agreement, a commission agreement or another similar agreement for the benefit of the Non-Resident Noteholder-Individual, the applicable personal income tax at the rate of 30 per cent. should be withheld at source. The amount of tax withheld will be calculated after taking into account deductions for the acquisition value and related expenses to the extent such deductions and expenses can be determined by the entity, which is the payer of income. When a sale is made to other legal entities or individuals, generally no withholding of tax needs to be made and the Non-Resident Noteholder-Individual would be liable to file a tax return, report his or her income realized and apply for a deduction of acquisition expenses, based on the provision of supporting documentation. If this tax is not withheld at source, then the Non-Resident Noteholder-Individual will be liable to declare their income and pay the tax in accordance with a tax return. There is some uncertainty regarding the treatment of the portion of the proceeds, if any, from disposition of the Notes that is attributable to accrued interest on the Notes. Any gain may be affected by changes in the exchange rate between the currency of acquisition of the Notes, the currency of disposition of the Notes and roubles. Subject to reduction or elimination under provisions of an applicable double tax treaty that are related to interest income, proceeds attributable to accrued interest may be taxed at the rate of 30 per cent., even if disposition of the Notes results in a capital loss.

Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries and honors some double tax treaties concluded by the former Union of Soviet Socialist Republics. These tax treaties may contain provisions that reduce or eliminate Russian tax due with respect to income received from a source within Russia by a Non-Resident Noteholder on disposition of the Notes. To obtain the benefit of such double tax treaty provisions, the Noteholder must comply with the certification, information, and reporting requirements in force in Russia. Currently a Non-Resident Noteholder – Legal Entity would need to provide the payer of income with a certificate of tax residence issued by the competent tax authority of the relevant treaty country. In addition, a Non-

Resident Noteholder – Individual must present to the tax authorities a tax residency certificate issued by the competent authorities in his/her country of residence for tax purposes and a confirmation of the income received and the tax paid in such foreign jurisdiction, as confirmed by the relevant foreign tax authorities. Technically, such requirements mean that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her tax residency. Individuals in practice would not be able to obtain advance treaty relief on receipt of proceeds from a source within Russia, while obtaining a refund of the taxes withheld can be extremely difficult, if not impossible.

Non-Resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of proceeds received on a disposition of the Notes.

Refund of tax withheld

For a Non-Resident Noteholder that is not an individual for which double taxation treaty relief is available, if Russian withholding tax on income was withheld at the source, a claim for a refund of such tax can be filed within three years from the end of the tax period in which the tax was withheld.

For a Non-Resident Noteholder that is an individual for whom double taxation treaty relief is available, if Russian withholding tax on income was withheld at the source, a claim for refund of such tax may be filed within one year after the end of the year in which the tax was withheld.

The Russian tax authorities may, in practice, require a wide variety of documentation confirming a holder's right to obtain relief under a double taxation treaty. Such documentation may not be explicitly required by the Russian Tax Code.

Obtaining a refund of Russian tax withheld at the source may be a time consuming process and can involve considerable practical difficulties.

Resident Noteholders

A Resident Noteholder will be subject to all applicable Russian taxes in respect of gains realized in connection with disposition of the Notes and interest received on the Notes.

Taxation of Interest on the Loan

In general, payments of interest on borrowed funds made by a Russian entity to a non-resident legal entity are subject to Russian withholding tax at the rate of 20 per cent., subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on the professional advice it has received, Gazprom believes that payments of interest to the Issuer on each Loan should not be subject to withholding tax under the terms of the Russia-Luxembourg double tax treaty. However, there can be no assurance that such relief will be available in the future.

If interest under the Loan becomes payable to the Trustee pursuant to the Trust Deed, any benefit of the Russia-Luxembourg double tax treaty will cease and payments of interest should be subject to Russian withholding tax at the rate of 20 per cent. In such cases, Noteholders may seek reduction or a refund of withholding tax under double taxation treaties entered into between their countries of residence and Russia, where such treaties exist and to the extent they are applicable.

If payments under any Loan are subject to any withholding of Russian tax (as a result of which the Issuer would reduce payments under the corresponding Series of the Notes in the amount of such withholding tax), Gazprom is obliged (subject to certain conditions) to increase payments as may be necessary so that the net payments received by the Issuer and Noteholders will be equal to the amounts they would have received in absence of such withholding tax. It should be noted, however, that tax gross-up provisions may not be enforceable under Russian law. If Gazprom is obliged to increase payments, it may, subject to certain conditions, prepay such Loan in full. In such case, all outstanding Notes of the corresponding Series would each be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of repayment.

No value added tax will be payable in Russia in respect of interest and principal payments under each Loan.

European Union

The Council of the European Union has adopted Council Directive 2003/48/EC (the "Savings Directive") regarding the taxation of savings income in the form of interest payments. The Savings Directive entered into force on July 1, 2005. The term "Paying Agent" as used below has to be understood in the sense laid down by the Savings Directive. The Savings Directive provides that certain interest payments made by a Paying Agent situated within a European Union member state to

an individual resident in another EU member state will either have to be reported to the tax authorities of the country of establishment of the Paying Agent or will be subject to a withholding tax depending on the location of the Paying Agent. For most EU countries, the tax authorities of the country of establishment of the Paying Agent will report relevant information to the tax authorities of the country of residence of the individual. For a transitional period, Luxembourg, Austria and Belgium will apply a withholding tax. The applicable withholding tax rate will be 15% for the first three years of application. This rate will be increased to 20% for the next three years and then to 35% thereafter until the end of the transitional period. However, for the countries applying a withholding tax, there exist some procedures to avoid the withholding tax, i.e. a procedure providing an exchange of information or a procedure providing the presentation of a tax certificate to the Paying Agent.

A number of non-EU countries and territories have adopted similar measures, some of which involve a withholding tax system.

Noteholders and potential investors are advised to consult their professional advisors concerning possible taxation or other consequences of purchasing, holding, selling or otherwise disposing of the Notes under the laws of their country of incorporation, establishment, citizenship, residence or domicile. The above statements on taxation are based on the laws and practices in force at the date of this Prospectus. As is the case with any investment, there can be no guarantee that the tax position or proposed tax position at the time of an investment will endure indefinitely.

Luxembourg

Luxembourg tax residency of the Noteholders

A Noteholder will not become resident, or be deemed to be resident, in Luxembourg by reason only of the holding of the Notes, or the execution, performance, delivery and/or enforcement of the Notes.

Withholding tax

Under Luxembourg tax law currently in effect and with the possible exception of interest paid to individual Noteholders and to certain entities, there is no Luxembourg withholding tax on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax, with the possible exception of payments made to individual Noteholders and to certain entities, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Notes.

Taxation of Luxembourg non-residents

Under the Luxembourg laws dated June 21, 2005 implementing the Savings Directive and several agreements concluded between Luxembourg and certain dependent or associated territories of the European Union ("EU"), a Luxembourg-based paying agent (within the meaning of the Savings Directive) is required since July 1, 2005 to withhold tax on interest and other similar income paid by it to (or under certain circumstances, to the benefit of) an individual resident in another Member State or in certain EU dependent or associated territories, unless the beneficiary of the interest payments elects for the procedure of exchange of information or for the tax certificate procedure. The same treatment will apply to payments of interest and other similar income made to certain residual entities" as defined in Article 4.2 of the Savings Directive established in a Member State or in certain EU dependent or associated territories (i.e., entities which are not legal persons (the Finnish and Swedish companies listed in Article 4.5 of the Savings Directive are not considered as legal persons for this purpose), whose profits are not taxed under the general arrangements for the business taxation, that are not UCITS recognised in accordance with the Council Directive 85/611/EEC).

The withholding tax rate is 20% as from July 1, 2008, increasing to 35% as from July 1, 2011. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain third countries.

Taxation of Luxembourg residents

As of January 1, 2006, interest payments made by Luxembourg paying agents (defined in the same way as in the Savings Directive) to Luxembourg individual residents or to certain residual entities that secure interest payments on behalf of such individuals (unless such entity has opted either to be treated as UCITS recognized in accordance with the Council Directive 85/611/EC or for the exchange of information regime) are subject to a 10% withholding tax. This withholding tax

represents the final tax liability for Luxembourg individual resident taxpayers, receiving the payment in the course of their private wealth.

Taxation of the Noteholders

Taxation of Luxembourg non-residents

Noteholders who are non-residents of Luxembourg and who have neither a permanent establishment, a permanent representative nor a fixed base of business in Luxembourg with which the holding of the Notes is connected are not liable to any Luxembourg income tax, whether they receive payments of principal, payments of interest (including accrued but unpaid interest), payments received upon redemption or repurchase of the Notes, or realize capital gains on the sale of any Notes.

Taxation of Luxembourg residents

Noteholders who are residents of Luxembourg, or non-resident Noteholders who have a permanent establishment, a permanent representative or a fixed base of business in Luxembourg with which the holding of the Notes is connected will not be liable to any Luxembourg income tax on repayment of principal.

Luxembourg resident individuals

The 10% Luxembourg withholding tax (see—Withholding tax—Taxation of Luxembourg residents”) represents the final tax liability on interest received for the Luxembourg resident individuals receiving the payment in the course of their private wealth. Individual Luxembourg resident Noteholders receiving the interest as business income must include interest income in their taxable basis. The 10% Luxembourg withholding tax levied will be credited against their final income tax liability.

Luxembourg resident individual Noteholders are not subject to taxation on capital gains upon the disposal of the Notes, unless the disposal of the Notes precedes the acquisition of the Notes or the Notes are disposed of within six months of the date of acquisition of the Notes. Upon the sale, redemption or exchange of the Notes, accrued but unpaid interest will be subject to the 10% withholding tax. Individual Luxembourg resident Noteholders receiving the interest as business income must also include the portion of the redemption price corresponding to this interest in their taxable income. The 10% Luxembourg withholding tax levied will be credited against their final income tax liability.

Luxembourg resident companies

Luxembourg resident companies (*société de capitaux*) Noteholders or foreign entities of the same type which have a permanent establishment or a permanent representative in Luxembourg with which the holding of the Notes is connected, must include in their taxable income any interest (including accrued but unpaid interest) and the difference between the sale or redemption price (including accrued but unpaid interest) and the lower of the cost or book value of the Notes sold or redeemed.

Luxembourg resident companies benefiting from a special tax regime

Noteholders who are undertakings for collective investment subject to the law of December 20, 2002 or to the law of February 13, 2007 are tax exempt entities in Luxembourg, and are thus not subject to any Luxembourg tax (i.e., corporate income tax, municipal business tax and net wealth tax), other than the subscription tax calculated on their net asset value. This annual tax is paid quarterly on the basis of the total net assets as determined at the end of each quarter.

Noteholders who are holding companies subject to the law of July 31, 1929 (1929 holding companies”) are also not subject to income tax and are liable only for the so-called subscription tax at the rate of 0.2%. In principle, the tax basis is composed of the average capital market value (for listed 1929 holding companies) or paid-up capital and share premium (for non-listed 1929 holding companies).

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a Noteholder, unless (i) such holder is a Luxembourg fully taxable resident company or (ii) such Notes are attributable to an enterprise or part thereof which is carried on by a non-resident company in Luxembourg through a permanent establishment.

Other Taxes

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by Noteholders as a consequence of the issuance of the Notes, nor will any of these taxes be payable as a consequence of a subsequent transfer, repurchase or redemption of the Notes. Proceedings in a Luxembourg court or the presentation of documents relating to the Notes, other than the Notes themselves, to an *autorité constituée* may require registration of the documents, in which case the documents will be subject to registration duties depending on the nature of the documents. In particular, a loan agreement not represented by the Notes will be subject to an *ad valorem* registration of 0.24% of the amounts mentioned therein.

There is no Luxembourg VAT payable in respect of payments in consideration for the issuance of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of the Notes. Luxembourg VAT may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg VAT purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg VAT does not apply with respect to such services.

No Luxembourg inheritance taxes are levied on the transfer of the Notes upon death of a Noteholder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes. No Luxembourg gift tax will be levied on the transfer of the Notes by way of gift unless the gift is registered in Luxembourg.

United States

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, NOTEHOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS BASE PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY NOTEHOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON NOTEHOLDERS UNDER THE U.S. TAX CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) NOTEHOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion summarizes certain U.S. federal income tax considerations that may be relevant to Noteholders who are “U.S. holders.” A Noteholder will be a “U.S. holder” if it is an individual who is a citizen or resident of the United States, a U.S. domestic corporation, an estate the income of which is subject to U.S. federal income tax regardless of its source, a trust, if (i) a U.S. court can exercise primary supervision over the administration of the trust and one or more U.S. persons has the authority to control all substantial trust decisions, or (ii) it has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person, or an entity that is disregarded as separate from its owner if all of its interests are owned by a single person described above. This summary does not address the material U.S. federal income tax consequences of every type of Note which may be issued under the Programme, and the relevant Final Terms or supplemental prospectus will contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note as appropriate. This summary deals only with U.S. holders that hold Notes as capital assets. It does not address considerations that may be relevant to a Noteholder who is an investor that is subject to special tax rules, such as a bank, thrift, real estate investment trust, partnership (or other entity treated as a partnership for U.S. federal income tax purposes), regulated investment company, insurance company, dealer in securities or currencies, trader in securities or commodities that elects mark to market treatment, person that will hold Notes as a hedge against currency risk or as a position in a “straddle” or conversion transaction, tax-exempt organization, a person whose “functional currency” is not the U.S. dollar or who is subject to U.S. federal alternative minimum tax, or a person who holds a Note through an entity treated as a partnership or other flow through entity for U.S. federal income tax purposes.

This summary is based on laws, regulations, rulings and decisions now in effect, all of which may change. Any change could apply retroactively and could affect the continued validity of this summary.

The summary of U.S. federal income tax consequences set out below is for general information only. A prospective purchaser of the notes should consult its tax advisor about the tax consequences

of holding Notes, including the relevance to its particular situation of the considerations discussed below, as well as the relevance to its particular situation of state, local or other tax laws, including U.S. federal gift, estate, transfer and excise tax laws.

Each Note holder that is treated, for U.S. federal income tax purposes, as a partnership should consult its own tax advisor.

Characterization of the Notes

Unless otherwise specified in the applicable series prospectus or Final Terms, the Notes should be treated as indebtedness for U.S. federal income tax purposes. However, no ruling will be obtained from the Internal Revenue Service with respect to the characterization of the Notes as indebtedness and there can be no assurance that the Internal Revenue Service or the courts would agree with such characterization. If the Notes were treated as equity of the Issuer, a Noteholder would be treated as owning stock in a “Passive Foreign Investment Company” (a “PFIC”) for U.S. federal income tax purposes. Prospective purchasers are urged to consult their tax advisors regarding the characterization of the Notes and the consequences of owning stock in a PFIC.

Payments or Accruals of Interest

Payments or accruals of “qualified stated interest” (as defined below) on a Note will be taxable as ordinary interest income at the time that the Noteholder receives or accrues such amounts (in accordance with its regular method of tax accounting). If a Noteholder uses the cash method of tax accounting and it receives payments of interest pursuant to the terms of a Note in a currency other than U.S. dollars (a “foreign currency”), the amount of interest income the Noteholder will realize will be the U.S. dollar value of the foreign currency payment based on the exchange rate in effect on the date it receives the payment, regardless of whether it converts the payment into U.S. dollars. The subsequent disposition of such foreign currency may give rise to taxable foreign currency gain or loss. If a Noteholder is an accrual-basis U.S. holder, the amount of interest income it will realize will be based on the average exchange rate in effect during the interest accrual period (or with respect to an interest accrual period that spans two taxable years, at the average exchange rate for the partial period within the taxable year). Alternatively, as an accrual-basis U.S. holder, a Noteholder may elect to translate all interest income on foreign currency-denominated Notes at the spot rate on the last day of the accrual period (or the last day of the taxable year, in the case of an accrual period that spans more than one taxable year) or on the date that it receives the interest payment if that date is within five business days of the end of the accrual period. If a Noteholder makes this election, it must apply it consistently to all debt instruments from year to year and it cannot change the election without the consent of the U.S. Internal Revenue Service. If a Noteholder uses the accrual method of accounting for tax purposes, it will recognize foreign currency gain or loss on the receipt of a foreign currency interest payment if the exchange rate in effect on the date the payment is received differs from the rate applicable to a previous accrual of that interest income. This foreign currency gain or loss will be treated as ordinary income or loss, but generally will not be treated as an adjustment to interest income received on the Note.

Interest paid by the Issuer on the Notes and original issue discount, if any, accrued with respect to the Notes (as described below under “*Original Issue Discount*”) generally will constitute income from sources outside the United States.

Purchase, Sale and Retirement of Notes

Initially, a Noteholder’s tax basis in a Note generally will equal the cost of the Note to it. Its basis will increase by any amounts that it is required to include in income under the rules governing original issue discount and market discount, and will decrease by the amount of any amortized premium and any payments other than qualified stated interest made on the Note. (The rules for determining these amounts are discussed below.) If a Noteholder purchases a Note that is denominated in a foreign currency, the cost to it generally will be the U.S. dollar value of the foreign currency purchase price on the date of purchase calculated at the exchange rate in effect on that date. However, if the foreign currency Note is traded on an established securities market and the Noteholder is a cash-basis taxpayer (or if it is an accrual-basis taxpayer that makes a special election), it will determine the U.S. dollar value of the cost of the Note by translating the amount of the foreign currency that it paid for the Note at the spot rate of exchange on the settlement date of its purchase. The amount of any subsequent adjustments to its tax basis in a Note in respect of foreign currency-denominated original issue discount, market discount and premium will be determined in the manner described below. If a Noteholder converts U.S. dollars into a foreign

currency and then immediately uses that foreign currency to purchase a Note, it generally will not have any taxable gain or loss as a result of the conversion or purchase.

When a Noteholder sells or exchanges a Note, or if a Note that it holds is retired, it generally will recognize gain or loss equal to the difference between the amount it realizes on the transaction (less any accrued qualified stated interest, which will be subject to tax in the manner described above under “Payments or Accruals of Interest”) and its tax basis in the Note. If a Noteholder sells or exchanges a Note for a foreign currency, or receives foreign currency on the retirement of a Note, the amount it will realize for U.S. tax purposes generally will be the dollar value of the foreign currency that it receives calculated at the exchange rate in effect on the date the foreign currency Note is disposed of or retired. If a Noteholder disposes of a foreign currency Note that is traded on an established securities market and it is a cash-basis U.S. holder (or if it is an accrual-basis holder that makes a special election), it will determine the U.S. dollar value of the amount realized by translating the amount at the spot rate of exchange on the settlement date of the sale, exchange or retirement.

The special election available to a Noteholder if it is an accrual-basis taxpayer in respect of the purchase and sale of foreign currency Notes traded on an established securities market, which is discussed in the two preceding paragraphs, must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the Internal Revenue Service.

Except as discussed below with respect to market discount and foreign currency gain or loss, the gain or loss that a Noteholder recognizes on the sale, exchange or retirement of a Note generally will be capital gain or loss. The gain or loss on the sale, exchange or retirement of a Note will be long-term capital gain or loss if a Noteholder has held the Note for more than one year on the date of disposition. Net long-term capital gain recognized by an individual U.S. holder generally will be subject to tax at a lower rate than net short-term capital gain or ordinary income. The ability of U.S. holders to offset capital losses against ordinary income is limited.

Despite the foregoing, the gain or loss that a Noteholder recognizes on the sale, exchange or retirement of a foreign currency Note generally will be treated as ordinary income or loss to the extent that the gain or loss is attributable to changes in exchange rates during the period in which it held the Note. This foreign currency gain or loss will not be treated as an adjustment to interest income that a Noteholder receives on the Note.

Gain realized on the sale of a Note will generally be treated as U.S. source income and therefore the use of foreign tax credits relating to any non-U.S. tax imposed upon such sale may be limited.

Original Issue Discount

If Notes are issued at a discount from their stated redemption price at maturity, and the discount is equal to or more than the product of one-fourth of one percent (0.25%) of the stated redemption price at maturity of the Notes multiplied by the number of full years to their maturity, the Notes will be “Original Issue Discount Notes.” The difference between the issue price and the stated redemption price at maturity of the Notes will be the “original issue discount.” The “issue price” of the Notes will be the first price at which a substantial amount of the Notes are sold to the public (i.e., excluding sales of Notes to underwriters, placement agents, wholesalers, or similar persons). The “stated redemption price at maturity” will include all payments under the Notes other than payments of qualified stated interest. The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments issued by the Issuer) at least annually during the entire term of a Note at a single fixed interest rate or, subject to certain conditions, based on one or more interest indices.

If a Noteholder invests in an Original Issue Discount Note, it generally will be subject to the special tax accounting rules for original issue discount obligations provided by the U.S. Tax Code and certain U.S. Treasury regulations (the “OID Regulations”). Each prospective purchaser of the Notes should be aware that, as described in greater detail below, if it invests in an Original Issue Discount Note, it generally will be required to include original issue discount in ordinary gross income for U.S. federal income tax purposes as the original issue discount income accrues, although it may not yet have received the cash attributable to that income.

In general, and regardless of whether a Noteholder uses the cash or the accrual method of tax accounting, if it is the holder of an Original Issue Discount Note with a maturity greater than one year, it will be required to include in ordinary gross income the sum of the “daily portions” of original issue discount on that Note for all days during the taxable year that it owns the Note. The

daily portions of original issue discount on an Original Issue Discount Note are determined by allocating to each day in any accrual period a ratable portion of the original issue discount allocable to that period. Accrual periods may be any length and may vary in length over the term of an Original Issue Discount Note, so long as no accrual period is longer than one year and each scheduled payment of principal or interest occurs on the first or last day of an accrual period. If a Noteholder is the initial holder of the Note, the amount of original issue discount on an Original Issue Discount Note allocable to each accrual period is determined by:

- (i) multiplying the “adjusted issue price” (as defined below) of the Note at the beginning of the accrual period by a fraction, the numerator of which is the annual yield to maturity (defined below) of the Note and the denominator of which is the number of accrual periods in a year; and
- (ii) subtracting from that product the amount (if any) payable as qualified stated interest allocable to that accrual period.

In the case of an Original Issue Discount Note that is a floating rate Note, both the “annual yield to maturity” and the qualified stated interest will be determined for these purposes as though the Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the Note on its date of issue or, in the case of some floating rate Notes, the rate that reflects the yield that is reasonably expected for the Note. (Additional rules may apply if interest on a floating rate Note is based on more than one interest index.)

The “adjusted issue price” of an Original Issue Discount Note at the beginning of any accrual period will generally be the sum of its issue price (including any accrued interest) and the amount of original issue discount allocable to all prior accrual periods, reduced by the amount of all payments other than any qualified stated interest payments on the Note in all prior accrual periods. All payments on an Original Issue Discount Note (other than qualified stated interest) will generally be viewed first as payments of previously accrued original issue discount (to the extent of the previously accrued discount), with payments considered made from the earliest accrual periods first, and then as a payment of principal. The “annual yield to maturity” of a Note is the discount rate (appropriately adjusted to reflect the length of accrual periods) that causes the present value on the issue date of all payments on the Note to equal the issue price. As a result of this “constant yield” method of including original issue discount income, the amounts a Noteholder will be required to include in its gross income if it invests in an Original Issue Discount Note denominated in U.S. dollars generally will be lesser in the early years and greater in the later years than amounts that would be includible on a straight-line basis.

A Noteholder generally may make an irrevocable election to include in income its entire return on a Note (i.e., the excess of all remaining payments to be received on the Note, including payments of qualified stated interest, over the amount it paid for the Note) under the constant yield method described above. If a Noteholder purchases Notes at a premium or market discount and if it makes this election, it will also be deemed to have made the election (discussed below under the “Premium” and “Market Discount”) to amortize premium or to accrue market discount currently on a constant yield basis in respect of all other premium or market discount bonds that it holds.

In the case of an Original Issue Discount Note that is also a foreign currency Note, a Noteholder should determine the U.S. dollar amount includible as original issue discount for each accrual period by (i) calculating the amount of original issue discount allocable to each accrual period in the foreign currency using the constant yield method described above and (ii) translating that foreign currency amount at the average exchange rate in effect during that accrual period (or, with respect to an interest accrual period that spans two taxable years, at the average exchange rate for each partial period). Alternatively, a Noteholder may translate the foreign currency amount at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year, for an accrual period that spans two taxable years) or at the spot rate of exchange on the date of receipt, if that date is within five business days of the last day of the accrual period, provided that a Noteholder has made the election described above under “Payments or Accruals of Interest.” Because exchange rates may fluctuate, if a Noteholder is the holder of an Original Issue Discount Note that is also a foreign currency Note, it may recognize a different amount of original issue discount income in each accrual period than would be the case if it were the holder of an otherwise similar Original Issue Discount Note denominated in U.S. dollars. Upon the receipt of an amount attributable to original issue discount (whether in connection with a payment of an amount that is not qualified stated interest or the sale or retirement of the Original Issue Discount Note), a Noteholder will

recognize ordinary income or loss measured by the difference between the amount received (translated into U.S. dollars at the exchange rate in effect on the date of receipt or on the date of disposition of the Original Issue Discount Note, as the case may be) and the amount accrued (using the exchange rate applicable to such previous accrual).

If a Noteholder purchases an Original Issue Discount Note outside of the initial offering at a cost less than its remaining redemption amount (i.e., the total of all future payments to be made on the Note other than payments of qualified stated interest), or if a Noteholder purchases an Original Issue Discount Note in the initial offering at a price other than the Note's issue price, it generally will also be required to include in gross income the daily portions of original issue discount, calculated as described above. However, if a Noteholder acquires an Original Issue Discount Note at a price greater than its adjusted issue price, the Noteholder will be entitled to reduce its periodic inclusions of original issue discount to reflect the premium paid over the adjusted issue price.

Floating rate Notes generally will be treated as "variable rate debt instruments" under the OID Regulations. Accordingly, the stated interest on a Floating Rate Note generally will be treated as "qualified stated interest" and such a Note will not have OID solely as a result of the fact that it provides for interest at a variable rate. If a floating rate Note does not qualify as a "variable rate debt instrument," the Note will be subject to special rules that govern the tax treatment of debt obligations that provide for contingent payments. A summary of the U.S. federal income tax considerations relevant to U.S. holders of any such Notes will be provided in the relevant Final Terms or supplemental prospectus.

Short-Term Notes

The rules described above will also generally apply to Original Issue Discount Notes with maturities of one year or less ("short-term Notes"), but with some modifications.

First, the original issue discount rules treat none of the interest on a short-term Note as qualified stated interest, but treat a short-term Note as having original issue discount. Thus, all short-term Notes will be Original Issue Discount Notes. Except as noted below, if a Noteholder is a cash-basis holder of a short-term Note and it does not identify the short-term Note as part of a hedging transaction, it will generally not be required to accrue original issue discount currently, but it will be required to treat any gain realized on a sale, exchange or retirement of the Note as ordinary income to the extent such gain does not exceed the original issue discount accrued with respect to the Note during the period it held the Note. A Noteholder may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry a short-term Note until the Maturity of the Note or its earlier disposition in a taxable transaction. Notwithstanding the foregoing, if a Noteholder is a cash-basis U.S. holder of a short-term Note, it may elect to accrue original issue discount on a current basis (in which case the limitation on the deductibility of interest described above will not apply). A U.S. holder using the accrual method of tax accounting and some cash method holders (including banks, securities dealers, regulated investment companies and certain trust funds) generally will be required to include original issue discount on a short-term Note in gross income on a current basis. Original issue discount will be treated as accruing for these purposes on a ratable basis or, at the election of the holder, on a constant yield basis based on daily compounding.

Second, regardless of whether a Noteholder is a cash-basis or accrual-basis holder, if it is the holder of a short-term Note, it may elect to accrue any "acquisition discount" with respect to the Note on a current basis. Acquisition discount is the excess of the remaining redemption amount of the Note at the time of acquisition over the purchase price. Acquisition discount will be treated as accruing ratably or, at the election of the holder, under a constant yield method based on daily compounding. If a Noteholder elects to accrue acquisition discount, the original issue discount rules will not apply.

Finally, the market discount rules described below will not apply to short-term Notes.

Premium

If a Noteholder purchases a Note at a cost greater than the Note's remaining redemption amount, it will be considered to have purchased the Note at a premium, and it may elect to amortize the premium as an offset to interest income, using a constant yield method, over the remaining term of the Note. If a Noteholder makes this election, it generally will apply to all debt instruments that it holds at the time of the election, as well as any debt instruments that it subsequently acquires. In addition, a Noteholder may not revoke the election without the consent of the Internal Revenue Service. If a Noteholder elects to amortize the premium, it will be required to reduce its tax basis in

the Note by the amount of the premium amortized during its holding period. Original Issue Discount Notes purchased at a premium will not be subject to the original issue discount rules described above. In the case of premium on a foreign currency Note, a Noteholder should calculate the amortization of the premium in the foreign currency. Premium amortization deductions attributable to a period reduce interest income in respect of that period, and therefore are translated into U.S. dollars at the rate that it uses for interest payments in respect of that period. Exchange gain or loss will be realized with respect to amortized premium on a foreign currency Note based on the difference between the exchange rate computed on the date or dates the premium is amortized against interest payments on the Note and the exchange rate on the date the holder acquired the Note. If a Noteholder does not elect to amortize premium, the amount of premium will be included in its tax basis in the Note. Therefore, if a Noteholder does not elect to amortize premium and it holds the Note to Maturity, it generally will be required to treat the premium as capital loss when the Note matures.

Market Discount

If a Noteholder purchases a Note at a price that is lower than the Note's remaining redemption amount (or in the case of an Original Issue Discount Note, the Note's adjusted issue price), by 0.25% or more of the remaining redemption amount (or adjusted issue price), multiplied by the number of remaining whole years to maturity, the Note will be considered to bear "market discount" in its hands. In this case, any gain that it realizes on the disposition of the Note generally will be treated as ordinary income to the extent of the market discount that accrued on the Note during its holding period. In addition, a Noteholder may be required to defer the deduction of a portion of the interest paid on any indebtedness that it incurred or continued to purchase or carry the Note. In general, market discount will be treated as accruing ratably over the term of the Note, or, at the Noteholder's election, under a constant yield method. A Noteholder must accrue market discount on a foreign currency Note in the specified currency. The amount that a Noteholder will be required to include in income in respect of accrued market discount will be the U.S. dollar value of the accrued amount, generally calculated at the exchange rate in effect on the date that it disposes of the Note.

A Noteholder may elect to include market discount in gross income currently as it accrues (on either a ratable or constant yield basis), in lieu of treating a portion of any gain realized on a sale of the Note as ordinary income. If a Noteholder elects to include market discount on a current basis, the interest deduction deferral rule described above will not apply. If a Noteholder does make such an election, the election will apply to all market discount debt instruments that it acquires on or after the first day of the first taxable year to which the election applies.

The election may not be revoked without the consent of the U.S. Internal Revenue Service. Any accrued market discount on a foreign currency Note that is currently includible in income will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the holder's taxable year).

Indexed Notes and Other Notes Providing for Contingent Payments

Special rules govern the tax treatment of debt obligations that provide for contingent payments ("contingent debt obligations"). These rules generally require accrual of interest income on a constant yield basis in respect of contingent debt obligations at a yield determined at the time of issuance of the obligation, and may require adjustments to these accruals when any contingent payments are made. A summary of the U.S. federal income tax considerations relevant to U.S. holders of any contingent debt obligations will be provided in the relevant Final Terms or supplemental prospectus.

Information Reporting and Backup Withholding

The paying agent may be required to file information returns with the U.S. Internal Revenue Service in connection with Note payments made to certain U.S. persons. If a Noteholder is a U.S. person, it generally will not be subject to U.S. backup withholding tax on such payments if it provides its taxpayer identification number to the paying agent or provides other evidence that it is an exempt recipient from the backup withholding rules. A Noteholder may also be subject to information reporting and backup withholding tax requirements with respect to the proceeds from a sale of the Notes. If a Noteholder is not a U.S. person, it may have to comply with certification procedures to establish that it is not a U.S. person in order to avoid information reporting and backup withholding tax requirements.

CERTAIN U.S. EMPLOYEE BENEFIT PLAN CONSIDERATIONS

Notes are not permitted to be acquired by employee benefit plans as defined in Section 3(3) of ERISA and subject to Title I of ERISA, including collective investment funds, separate accounts or accounts whose underlying assets are treated as assets of such plans pursuant to the U.S. Department of Labor “plan assets” regulation as modified by Section 3(42) of ERISA (collectively, “ERISA Plans”), plans not subject to ERISA but subject to Section 4975 of the Code, including IRAs, Keogh Plans which cover only self-employed persons and their spouses and other employee benefit plans which cover only the owners of a business (collectively, “4975 Plans”), or by entities whose underlying assets include plan assets by reason of an investment in the entity by ERISA Plans or 4975 Plans or otherwise (collectively, “Plan Asset Entities”). ERISA Plans, 4975 Plans and Plan Asset Entities are collectively referred to as “Benefit Plan Investors.” Notes are permitted to be acquired by governmental plans and non-electing church plans that are not subject to ERISA or Section 4975 of the Code (collectively, “Non-ERISA Plans”).

ERISA imposes fiduciary standards and certain other requirements on ERISA Plans and on those persons who are fiduciaries with respect to ERISA Plans. 4975 Plans are subject to certain restrictions similar to ERISA’s prohibited transaction rules. Non-ERISA Plans are subject to applicable state, local or federal law, as well as the restrictions of duties of common law, and may also be subject to prohibited transaction provisions that operate similarly to those under ERISA.

Under the regulations issued by the Department of Labor and Section 3(42) of ERISA (the “Plan Asset Regulations”), unless certain exceptions apply, if an ERISA Plan or a 4975 Plan invests in an “equity interest” of an entity, the plan’s assets include both the equity interest and an undivided interest in each of the entity’s underlying assets. This “look through” rule will only apply where Benefit Plan Investors” own 25% or more of the value of any class of equity interest in the entity. For purposes of this 25% determination, the value of equity interests held by persons (other than Benefit Plan Investors) that have discretionary authority or control with respect to the assets of the entity or that provide investment advice for a fee (direct or indirect) with respect to such assets (or any affiliate of such person) is disregarded. An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features.

If the underlying assets of an entity are deemed to be plan assets, those with discretionary authority or control over the entity would be fiduciaries with respect to the entity’s assets. The assets of the entity would also be subject to the prohibited transaction rules of ERISA and Section 4975 of the Code, as well as other rules applicable to plan assets.

The Issuer believes that the Notes should be treated as debt rather than equity for purposes of the Plan Assets Regulations. There can be no assurance, however, that the U.S. Department of Labor would not take a contrary view or would view the Notes as having substantial equity features. Further, the Issuer will not be able to monitor the Noteholders’ possible status as Benefit Plan Investors. Accordingly, the Notes are not permitted to be acquired by any benefit plan investor.

Non-ERISA Plans and entities that include the assets of Non-ERISA Plans are permitted to acquire the Notes. If the Non-ERISA Plan is a governmental plan, as defined in Section 3(32) of ERISA, the Non-ERISA Plan must represent and warrant that the acquisition and holding of the Notes does not violate any statute, regulation, administrative decision, policy or other legal authority applicable to the Non-ERISA Plan. Non-ERISA Plans are generally not subject to ERISA nor do the prohibited transaction provisions apply to these types of plans. However, such plans are subject to prohibitions on related-party transactions under Section 503 of the Code, which prohibitions operate similarly to the prohibited transaction rules under ERISA. In addition, the fiduciary of a Non-ERISA Plan must consider applicable state or local laws, if any, imposed upon such plan before purchasing a Note or any interest therein.

BY ITS PURCHASE AND HOLDING OF A NOTE OR ANY INTEREST THEREIN, THE PURCHASER AND/OR HOLDER THEREOF AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED AT THE TIME OF ITS PURCHASE AND THROUGHOUT THE PERIOD THAT IT HOLDS SUCH NOTE OR INTEREST THEREIN, THAT (1) IT IS NOT A BENEFIT PLAN INVESTOR (AS DEFINED IN SECTION 3(42) OF ERISA), (2) IF IT IS A GOVERNMENTAL PLAN, AS DEFINED IN SECTION 3(32) OF ERISA, THE PURCHASE AND HOLDING OF THE NOES OR ANY INTEREST THEREIN DOES NOT VIOLATE ANY STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR OTHER LEGAL AUTHORITY APPLICABLE TO SUCH GOVERNMENTAL PLAN AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY SUCH NOTE OR

INTEREST TO ANY PERSON WITHOUT FIRST OBTAINING THIS SAME FOREGOING REPRESENTATION AND WARRANTY FROM THAT PERSON.

The foregoing is not intended to be exhaustive and the law governing investments by Plans is subject to extensive administrative and judicial interpretations. The foregoing discussion should not be construed as legal advice. Any potential purchaser of Notes should consult counsel with respect to issues arising under ERISA, the Code and other applicable laws and make their own independent decisions.

FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Series, subject only to the deletion of non-applicable provisions, is set out below:

Final Terms dated ●

Open Joint Stock Company Gazprom

Issue of [Aggregate Principal Amount of Series] [Title of Loan Participation Notes] by Gaz Capital S.A. for the purpose of financing a Loan to Open Joint Stock Company Gazprom under a **U.S.\$30,000,000,000 Programme for the Issuance of Loan Participation Notes**

Part A—Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated [] [and the supplemental Base Prospectus dated ●] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the Prospectus Directive). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on Gazprom, the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. [The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing at [address] [and] [website] and copies may be obtained from [address].]

[The following alternative language applies if the first issuance of a Series which is being increased was issued under a Base Prospectus with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the [Base Prospectus] dated [original date] [and the supplemental Base Prospectus dated ●]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the Prospectus Directive) and must be read in conjunction with the Base Prospectus dated [current date] [and the supplemental Base Prospectus dated ●], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the [Base Prospectus] dated [original date] [and the supplemental Base Prospectus dated ●] and are attached hereto.]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the [Base Prospectuses] dated [original date] and [current date] [and the supplemental Base Prospectuses dated ● and ●]. [The [Base Prospectuses] [and the supplemental Base Prospectuses] are available for viewing at [address] [and] [website] and copies may be obtained from [address].]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]

[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

- | | | |
|---|---|---|
| 1 | (i) Issuer: | Gaz Capital S.A. |
| | (ii) Borrower: | Open Joint Stock Company Gazprom |
| 2 | Series Number: | ● |
| | <i>[(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.)</i> | ●] |
| 3 | Specified Currency: | ● |
| 4 | Aggregate Principal Amount of Notes admitted to trading: | ● |
| 5 | Issue Price: | ● per cent. of the Aggregate Principal Amount [plus accrued interest from [insert date] (in the case of |

- fungible issues only, if applicable)]*
- 6 Specified Denominations: ●
●⁽¹⁾
- 7 (i) Issue Date: ●
(ii) Interest Commencement Date: ●
- 8 Maturity Date: *[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]*
- 9 Interest Basis: [● per cent. Fixed Rate]
[Floating Rate](further particulars specified below)
- 10 Redemption/Payment Basis: Redemption at par
(N.B. If the Final Redemption Amount is less than 100% of the nominal value, the Notes will constitute derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation No.809/2004 will apply and Gazprom and the Issuer will prepare and publish a supplement to the Base Prospectus.)
- 11 Change of Interest or Redemption/
Payment Basis: *[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]*
- 12 (i) Status and Form of the Notes: Senior, Registered
(ii) [Date Board approval for issuance of Notes and borrowing of Loan obtained: [] [and []], respectively]]*(N.B. Only relevant where Board (or similar) authorisation is required for the particular Series of Notes or related Loan)]*
- 13 Method of distribution: [Syndicated/Non-syndicated]
- 14 Financial Centres (Condition 7): ●
- 15 Loan: ●
- 16 Put/Call Options: [Put Option/Call Option/Not Applicable] [(further particulars specified below)]

PROVISIONS RELATING TO INTEREST PAYABLE UNDER THE LOAN

- 17 Fixed Rate Note Provisions: [Applicable/Not Applicable] *(if not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate [(s)] of Interest: ● per cent. Per annum payable [annually/semi-annually] in arrear
- (ii) Interest Payment Date(s): ● in each year
- (iii) Fixed Coupon Amount [(s)]: ● per ● in principal amount
- (iv) Broken Amount: *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)]]*
- (v) Day Count Fraction (Condition 5): [30/360/Actual/Actual(ICMA/ISDA)/other]
- (vi) Determination Date(s) (Condition 5): ● in each year. *[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)]*
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]

(1) Not to be less than €50,000 (or its equivalent in other currencies). Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

- 18** Floating Rate Note Provisions: [Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Interest Period(s): ●
 - (ii) Specified Interest Payment Dates: ●
 - (iii) Business Day Convention: [Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day/ Convention/other (give details)]
 - (iv) Business Centre(s): ●
 - (v) Manner in which the Rate(s) of Interest is/ are to be determined: [Screen Rate Determination/ISDA Determination/other (give details)]
 - (vi) Interest Period Date(s): [Not Applicable/specify dates] (*will be not applicable unless different from Interest Payment Date*)
 - (vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): ●
 - (viii) Screen Rate Determination: As set out in the attached Loan Supplement
 - (ix) ISDA Determination: As set out in the attached Loan Supplement
 - (x) Margin(s): [+/●] per cent. per annum
 - (xi) Minimum Rate of Interest: ● per cent. per annum
 - (xii) Maximum Rate of Interest: ● per cent. per annum
 - (xiii) Day Count Fraction (Condition 5): ●
 - (xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Loans, if different from those set out in the Conditions: ●

PROVISIONS RELATING TO REDEMPTION

- 19** Final Redemption Amount of each Note: [● per Note of ● specified denomination/Other]
- 20** Early Redemption Amount(s) of each Note payable if the Loan should become repayable under the Loan Agreement prior to the Maturity Date: [● per Note of ● specified denomination/Other]
- 21** Call Option: [Applicable/Not Applicable]/(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Early Redemption Amount: As set out in the attached Loan Supplement
 - (ii) Make Whole Amount: As set out in the attached Loan Supplement
- 22** Put Option: [Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Put Settlement Date(s): ●

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 23** Other final terms: [Not Applicable/give details]
(When adding any other final terms consideration should be given as to whether such terms constitute a “significant new factor” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)

DISTRIBUTION

- 24 (i) If syndicated, names of Managers: [Not Applicable/*give names*]
- (ii) Stabilising Manager(s) (if any): [Not Applicable/*give name*]
- 25 If non-syndicated, name of Dealer: [Not Applicable/*give name*]
- 26 Additional selling restrictions: [Not Applicable/*give details*]

[LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the U.S.\$30,000,000,000 Programme for the Issuance of Loan Participation Notes of Gazprom.]

RESPONSIBILITY

The Issuer and Gazprom accept responsibility for the information contained in these Final Terms. [● has been extracted from ●. Each of the Issuer and Gazprom confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by ●, no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

Signed on behalf of Gazprom:

By: _____
Duly authorized

By: _____
Duly authorized

By: _____
Duly authorized

By: _____
Duly authorized

Part B—Other Information

1 LISTING

- (i) Listing: [Irish Stock Exchange/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on the Irish Stock Exchange with effect from ●.] [Not Applicable.]
- (iii) Estimate of total expenses related to admission to trading: ●

2 RATINGS

- Ratings: The Notes to be issued have been rated:
- [S & P: ●]
- [Moody's: ●]
- [[Other]: ●]
- (The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

3 [NOTIFICATION

The Irish Financial Services Regulatory Authority [has been requested to provide/has provided-include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

If applicable a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest is to be included. This may be satisfied by the inclusion of the following statement:

“Save as discussed in “Subscription and Sale”, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”⁽²⁾

5 [REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- [(i) Reasons for the offer []
- (See “Use of Proceeds” wording in Base Prospectus— if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)*
-
- [(ii) Estimated net proceeds: *(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)*
- [(iii) Estimated total expenses: ● [Include breakdown of expenses.]
- (Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)*

6 [Fixed Rate Notes only-YIELD Indication of yield:

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

(2) If there are material interests, but they are not discussed in “Subscription and Sale”, insert the section name where they are discussed instead. If there are no material interests, delete the whole of paragraph 4.

7 OPERATIONAL INFORMATION

- ISIN Code (Reg S Notes): ●
- ISIN Code (Rule 144A Notes): ●
- Common Code (Reg S Notes): ●
- Common Code (Rule 144A Notes): ●
- Rule 144A CUSIP number: ●

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking société anonyme [or DTC] and the relevant identification number(s): [Not Applicable/give name(s) and number(s) [and addresses]]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any):

8 GENERAL

- Tradeable Amount: ●

So long as the Notes are represented by a Global Note, the Notes will be tradeable only in principal amounts of at least the Specified Denomination and integral multiples of the Tradeable Amount in excess thereof.

[The final form of Loan Supplement will be attached]

OVERVIEW OF THE RUSSIAN GAS INDUSTRY AND CERTAIN REGULATORY MATTERS

The information set forth in this section is based on publicly available information, including Russian legislation and regulatory acts. Gazprom accepts responsibility for accurately reproducing such information and as far as Gazprom is aware no facts have been omitted which would render such information misleading, but Gazprom accepts no further responsibility in respect of such information. Such information may include approximations or use rounded numbers.

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.

During the transition period, the Russian natural gas industry was one of the most stable and effective segments of the Russian energy complex, accounting for over 20% of foreign exchange revenues and approximately 25% of tax revenue contributions to the federal budget and providing approximately 50% of the fuel used in generating electricity in Russia.

Despite the crisis and structural transformation of the economy from 1990 through 1999, total natural gas production in Russia declined by only 8.8%, whereas the production of oil and coal declined by 37.2% and 35%, respectively. The share of gas in the total amount of energy resources consumption increased from 42% to 50%, primarily because domestic natural gas prices were maintained at a low level.

We currently account for the majority of natural gas production in Russia. In 2007, we produced 548.6 bcm of natural gas, accounting for approximately 84% of total natural gas production in Russia. It is expected that production by independent companies as a share of total natural gas production in Russia will increase. The current Russian gas market is also characterized by developed infrastructure, minimal competition and a significant level of government regulation.

Classification of Reserves

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

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

The estimation of reserves of natural gas, gas condensate and crude oil can be broken down into two components: (i) geological reserves, or the quantities of natural gas, gas condensate and crude oil contained in the subsoil; and (ii) extractable reserves, or the portion of geological reserves the extraction of which from the subsoil as of the date the reserves are calculated is economically efficient given market conditions and rational use of modern extraction equipment and technologies and taking into account compliance with the requirements of subsoil and environmental protection. The Russian reserves system is based solely on an analysis of the geological attributes of reserves and takes into account the actual presence of hydrocarbons in the geological formations or the probability of their presence. Explored reserves are represented by categories A, B and C₁; preliminary estimated reserves are represented by category C₂; potential resources are represented by category C₃; and forecasted resources are represented by the categories D₁ and D₂.

Natural gas reserves in categories A, B and C₁ are considered to be fully extractable. For reserves of crude oil and gas condensate, a predicted coefficient of extraction is calculated based on geological and technical factors. We have included in this Base Prospectus only information about our explored reserves, or reserves in categories A, B and C₁, unless otherwise specified.

Category A reserves are calculated on the part of a deposit drilled in accordance with an approved development project for the oil or natural gas field. They represent reserves that have been analyzed in sufficient detail to define comprehensively the type, shape and size of the deposit, the level of hydrocarbon saturation, the reservoir type, the nature of changes in the reservoir characteristics, the hydrocarbon saturation of the productive strata of the deposit, the content and characteristics of the hydrocarbons, and the major features of the deposit that determine the conditions of its development (mode of operations, well productivity, strata pressure, natural gas, gas condensate and oil balance, hydro- and piezo-conductivity and other features).

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

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

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

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

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

Category C₂ reserves are preliminary estimated reserves of a deposit calculated on the basis of geological and geophysical research of unexplored sections of deposits adjoining sections of a field containing reserves of higher categories and of untested deposits of explored fields. The shape, size, structure, level, reservoir types, content and characteristics of the hydrocarbon deposit are determined in general terms based on the results of the geological and geophysical exploration and information on the more fully explored portions of a deposit. Category C₂ reserves are used to determine the development potential of a field and to plan geological, exploration and production activities.

Category C₃ resources are prospective resources prepared for the drilling of (i) traps within the oil- and gas-bearing area, delineated by geological and geophysical exploration methods tested for such area and (ii) the formation of explored fields which have not yet been exposed by drilling. The form, size and stratification conditions of the assumed deposit are estimated from the results of geological and geophysical research. The thickness, the reservoir characteristics of the formations, the composition and the characteristics of hydrocarbons are assumed to be analogous to those for explored fields. Category C₃ resources are used in the planning of prospecting and exploration work in areas known to contain other reserve bearing fields.

Category D₁ resources are calculated based on the results of regional geological, geophysical and geochemical research and by analogy with explored fields within the region being evaluated. Category D₁ resources are reserves in lithological and stratigraphic series that are evaluated within the boundaries of large regional structures confirmed to contain commercial reserves of oil and gas.

Category D₂ resources are calculated using assumed parameters on the basis of general geological concepts and by analogy with other, better studied regions with explored oil and gas fields. Category D₂ resources are reserves in lithological and stratigraphic series that are evaluated within the boundaries of large regional structures not yet confirmed to contain commercial reserves of oil and gas. The prospects for these series to prove to be oil- and gas-bearing are evaluated based on geological, geophysical and geochemical research.

The evaluation of gas reserves in newly discovered natural gas or oil-and-gas deposits is carried out under the Russian reserves system using the volume method. The volume method determines the volume of reserves by examining the filtration and capacitive parameters of the deposit based on (i) the area of the deposit, (ii) the effective depth of hydrocarbon saturation, and (iii) the porousness of the deposit and the level of saturation of the hydrocarbons, taking into account thermobaric conditions.

The evaluation of natural gas reserves in deposits already under development is carried out under the Russian reserves system using both the volume method and the material balance method. The material balance method takes into account temporal changes in the effective reservoir pressure as a result of the extraction of the hydrocarbons and the resultant influx of water.

Russian Regulation

The Russian legal system's rapid evolution during the last 10 years is particularly evident in the context of natural gas industry regulation. Below is a brief overview of some key aspects of the current regulatory regime for the natural gas and oil industries.

The regulation of legal and economic relations in the Russian natural gas industry is based on the following legislation: the Constitution, the Civil Code, the Subsoil Resources Law, the Natural Monopoly Law, the Gas Supply Law, the Gas Export Law and the Federal Law "On the Continental Shelf of the Russian Federation" No. 187-FZ dated November 30, 1995 (the "Continental Shelf Law"). The most important piece of legislation is the Gas Supply Law, which establishes a regulatory framework for natural gas supply in the Russian Federation.

Under the Gas Supply Law, Russian federal authorities have jurisdiction over natural gas supplies, including, *inter alia*, the development and implementation of Government policy on natural gas supply, the regulation of strategic natural gas reserves, control over the industrial and environmental safety of the industrial sites of the natural gas supply systems, metrological support, and standardization and certification.

The Government (i) sets the projected natural gas production levels and the sales balance in Russia, (ii) determines the level of natural gas prices and natural gas transportation tariffs, (iii) regulates natural gas deliveries, (iv) sets procedures for providing independent organizations with access to the natural gas transportation and distribution networks, and (v) defines the categories of customers to whom natural gas deliveries cannot be restricted or suspended.

The Ministry of Industry and Trade is a federal executive authority responsible for implementing Government civilian and military industry policy, the legal regulation of the energy sector, supporting industrial production exports and the state regulation of foreign trade (except for tariff and customs regulation).

The Ministry of Energy is responsible for Government fuel and energy industry policy, legal regulation of the energy sector, providing state services, the management of state property in the energy sector and the use of energy resources.

The Ministry of Natural Resources and Ecology is a federal executive body responsible for the development of Government policy and legal regulation of the use, study, reproduction and protection of natural resources, subsoil use safety, industrial security and environmental monitoring and protection.

The Constitution of Russia stipulates that the use of subsoil is under the joint jurisdiction of the federal and regional authorities.

Subsoil licensing

In 1992, the Subsoil Resources Law introduced a licensing system governing the study, exploration and production of natural resources from the subsoil in Russia. Under the Subsoil Resources Law, licenses for fields and subsoil plots were awarded through auctions or tenders conducted by the Committee on Geology and the Use of Mineral Resources of the Government of the Russian Federation, together with the legislative branch of the relevant constituent entity of the Russian Federation. Currently, licenses are awarded by the federal authority, which in accordance with Governmental Resolution No. 293 of June 17, 2004 is the Federal Agency for Subsoil Use. In May 2008, amendments to the Subsoil Resources Law became effective, restricting the Government's issuance of new licenses on a non-tender basis.

The most important criterion for determining an auction winner is the amount of the proposed payment (fee) for the right to use the subsoil. In a tender, such factors as the scientific and technical level of programs for geological exploration and subsoil use, extraction rates, the efficiency of environmental actions, and safety and national security considerations are also taken into account.

Licensing agreements for subsoil use identify the terms and conditions for the use of the subsoil and the rights and obligations of the parties to the license agreement. Any license agreement must be signed by a representative of the Federal Agency for Subsoil Use and the licensee.

There are several types of licenses applicable to the study, exploration and production of natural resources, including: (i) licenses for geological exploration; (ii) licenses for the production of natural resources; and (iii) combined licenses for exploration and production of natural resources. Under the Subsoil Resources Law, licenses are granted either for the term stipulated in the license or for an indefinite term. After the enactment of amendments to the Subsoil Resources Law in January 2000, exploration and assessment licenses may have a maximum term of five years (and 10 years for exploration of subsoil resources of internal sea waters, territorial seas and the continental shelf); production licenses may have a short term of up to one year or a term of the expected operational life of the field based on a feasibility study; and production licenses for underground waters may have a maximum term of 25 years. The Subsoil Resources Law allows the subsoil user to request an extension of the existing license in order to complete either the development of the field or the procedures necessary to vacate the land once the exploitation of the subsoil is complete, provided such user complies with the terms and conditions of the license. Indefinite term licenses are provided, in particular, for the construction and operation of waste burial facilities and underground storage facilities.

Licenses granted in accordance with the Subsoil Resources Law cannot be sold or transferred to another entity except in limited circumstances, such as restructuring, bankruptcy reorganization, assignment of the license to a subsidiary if the holder of the license has no less than a 50% share at the time of the license transfer, or certain transfers within an affiliated group of companies. A license is reissued when the right for subsoil use is transferred.

Moreover, the Subsoil Resources Law prohibits the transfer of a subsoil area of federal importance to any entity in which a foreign investor has the ability to (i) directly or indirectly control 10% or more of its voting shares, (ii) control its management by contract or otherwise, or (iii) appoint its chief executive officer or more than 10% of its executive officers or members of its board of directors or other management committee.

Under a licensing agreement, the licensee makes a number of commitments. For example, the licensee agrees to ensure a certain level of employment, to develop local infrastructure, to bring the field on stream by a certain date; to extract an agreed volume of natural resources each year; to keep environmental pollutants within specified limits; and to clean up environmental contamination. When the license expires, the licensee must return the relevant land, at its own expense, to a condition which is adequate for future use. The licensee can be fined or the license can be revoked in the event that it remains unused for a period of time, as a result of repeated or significant breaches of the law or the conditions of the license, upon the occurrence of a direct threat to the lives or health of people working or residing in an area where licensed activities are carried on, or upon the occurrence of emergency events and in other circumstances.

Most of the conditions set out in a license are based on mandatory rules contained in Russian law; however, other provisions, negotiable by the parties and compliant with the Subsoil Resources Law, can also be included in a license agreement.

A holder of a license for exploration and assessment of hydrocarbons is to make regular payments for the use of the subsoil based on economic and geographic conditions, the size of the subsoil area and the duration of exploration. Subsoil use also requires making lump sum payments determined by the license when certain events specified in the license agreement occur. These are generally payments for the right to use the subsoil (licensing fee).

These payments for subsoil are in addition to relevant tax obligations applicable to the license holder in accordance with general tax legislation.

The UGSS

The Gas Supply Law defines the UGSS as a centrally managed, technologically and economically regulated system of gas production, processing, 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. To ensure reliable gas supply and compliance with international treaties of the Russian Federation and gas delivery contracts, the UGSS maintains and develops its network, monitors the function of its facilities, procures the use of equipment and processes for power-saving and environmental safety at its industrial sites, takes action to ensure industrial and ecological safety within the UGSS, and operates disaster management systems.

The Gas Supply Law does not permit the division of the UGSS. The liquidation of its owner can only be carried out if a federal law is issued permitting such liquidation. The Gas Supply Law was amended in December 2005 to eliminate the prohibition on foreign persons and companies from owning more than 20% of the owner of the UGSS's (i.e. Gazprom's) issued ordinary shares. As amended, the Gas Supply Law now requires that at least 50% plus one share of the company owning the UGSS must be owned by the Russian Federation or joint stock companies in which the Russian Federation owns at least a 50% plus one share interest, and may only be disposed of by federal law. Currently, the Russian Federation controls more than 50% of Gazprom's shares.

Production sharing agreements

Production sharing agreements are commercial arrangements between the Russian Federation and investors relating to exploration and development and the sharing of production of mineral resources between parties. Under a production sharing agreement, an investor is exempted from a number of taxes and other mandatory payments in exchange for giving the Russian Federation a portion of its production, generally, after the investor has recovered its development costs.

The Federal Law No. 225 FZ "On Production Sharing Agreements" dated December 30, 1995 (the "PSA Law") came into force in January 1996. It established the principal legal framework for state regulation of production sharing agreements relating to oil and gas field development and production. The PSA Law contains rules purporting to protect investors against adverse changes in federal and regional laws and regulations.

The PSA Law provides that operations conducted under a production sharing agreement pursuant to the PSA Law will be governed by the production sharing agreement itself and will not be affected by contrary provisions of any other legislation. Furthermore, production sharing agreement entered into by the Russian Federation prior to the enactment of the PSA Law (e.g., Sakhalin I, Sakhalin II and Kharyaga) are "grandfathered" to the PSA Law so that their provisions will be effective even if they are inconsistent with the PSA Law.

Transportation and supply of gas

The relationship between natural gas suppliers and off-takers is governed by the Gas Supply Law, the Regulation on Natural Gas Supplies in the Russian Federation approved by Government Resolution No. 162 dated February 5, 1998, and other regulations.

A right of priority to enter into natural gas supply agreements is given to off-takers that purchase natural gas for the Government, utility consumers and households, and certain off-takers wishing to extend their existing natural gas supply agreements.

In accordance with Government Resolution No. 858 dated July 14, 1997 "On the Provision of Access of Independent Organisations to the Gas Transportation System of OAO Gazprom," Gazprom provides independent suppliers with non-discriminatory access to available UGSS transportation capacity in Russia. This requirement is subject to natural gas from independent suppliers being of sufficient quality and the availability of connecting and branch pipelines to consumers.

In accordance with the Gas Supply Law, consumers are obliged to pay for natural gas supplies and transportation services. If consumers fail to make such payments, suppliers have the right to limit or suspend natural gas supplies to such consumers in accordance with specific procedures provided for by a number of Government resolutions. Government Resolution No. 364 dated May 29, 2002 provides for special terms and conditions of gas delivery to institutions responsible for national security. The supplier may not suspend or limit gas supplies below the limits provided by the state-related customer for its affiliated institutions.

Gas exports

Pursuant to the Gas Export Law, as the owner of the UGSS, we have the exclusive right to export natural gas or liquefied natural gas produced in any hydrocarbon field within Russia.

However, this exclusivity requirement does not apply to the export of gas produced under production sharing agreements that were entered into before the Gas Export Law came into effect.

Transportation of crude oil and petroleum products

The trunk pipelines for transportation of crude oil and petroleum products in Russia are controlled by Transneft which is a state-controlled monopoly. Pursuant to the Natural Monopolies Law, pipeline terminal access rights are allocated among oil producers and their parent companies in proportion to the volumes of oil produced and delivered to the Transneft pipeline system (and not in proportion only to oil production volumes).

The Federal Energy Agency develops and approves annual plans that detail the precise volumes of oil that each oil producer can pump through the Transneft system. Once the access rights are allocated, oil producers generally cannot increase their allotted capacity in the export pipeline system, although they have limited flexibility in altering delivery routes. Oil producers are generally allowed to assign their access rights to others.

Prices and tariffs

Our financial and economic activity is regulated and supervised by the Russian Federation pursuant to the Gas Supply Law and Natural Monopoly Law, as well as certain governmental regulations, such as Government Resolution No. 239 “On Measures to Stabilize State Regulation of Prices (Tariffs)” dated March 7, 1995 and Government Resolution No. 1021 “On State Regulation of Gas Prices and Tariffs for Gas Transportation in the Territory of the Russian Federation” dated December 29, 2000. In accordance with the Gas Supply Law, the Government is authorized, and has implemented such right, to substitute service tariffs for gas transportation through pipelines, which is a natural monopoly activity, with the regulation of wholesale natural gas prices for end users that can use it as fuel and raw material as well as tariffs on gas transportation services for independent organizations. Currently, the Government regulates wholesale natural gas prices, tariffs for gas transportation services through trunk pipelines for independent organizations, tariffs for gas transportation through pipelines, tariffs for gas transportation through supply networks, and payments for the supply and marketing services rendered by gas distribution companies to the population. Therefore, state agencies set prices (tariffs) throughout the whole system of gas supply for Russian users.

Tariffs charged to unaffiliated third parties for the transportation of natural gas through our trunk pipelines are established by the FTS. Since August 1, 2006, pursuant to the order of the FTS of July 28, 2006, No. 151 e/1, the FTS has established a two-level tariff system consisting of (i) a payment for transportation of mcm per 100 km, and (ii) a payment for the use of natural gas pipelines, which depends on the regions of input and output to and from the gas transportation system.

In December 2007, the FTS increased regulated gas transportation tariffs for independent gas producers by an average of 19% effective from January 1, 2008. Transneft’s tariffs for using its crude oil transportation pipelines are also set by the FTS.

Environmental requirements

Russian environmental legislation establishes a “pay-to-pollute” regime. According to the Decree of the President of the Russian Federation No. 724 of May 12, 2008 on the system and structure of federal executive bodies, legal regulation with respect to control and surveillance over environmental use and protection is a function of the Ministry of Natural Resources and Ecology, and the execution of control over environmental use and protection is the function of its two services: the Federal Service for Surveillance in the Sphere of Environmental Use (with respect to state environmental control) and the Federal Service for Ecological, Technological and Nuclear Surveillance (with respect to the limitation of harmful effects of technology on the environment, the conduct of federal environmental expertise and administering the “pay-to-pollute” regime). Fees are assessed for both pollution within the limits agreed on emissions and effluents and for pollution in excess of these limits. There are additional fines for certain other breaches of environmental regulations. The environmental protection legislation contains an obligation to make compensation payments to the budget for all environmental losses caused by pollution. In the event of a dispute concerning losses caused by breaches of environmental laws and regulations, the prosecutor’s office or other authorized governmental bodies may bring suit. Courts may impose clean-up obligations, subject to the agreement of the parties, in lieu of or in addition to imposing fines.

Exploration licenses and production licenses generally require certain environmental commitments. Although such commitments may be stringent in a particular license, the penalties for failing to comply with clean-up requirements are generally low. Certain breaches of environmental commitments, however, may result in a licensing state body imposing early termination and/or suspension or limitation of the right of subsoil use. A subsoil user has the right to appeal a decision of a licensing body in court or with an administrative body.

Continental shelf and the exclusive economic zone

Offshore hydrocarbon operations in areas on the continental shelf are governed by the Continental Shelf Law. Activities that take place on the continental shelf, including the drilling and laying of pipelines and the operation of oil and gas extraction facilities, fall under the jurisdiction of the Federal Service for Surveillance in the sphere of Environmental Use of the Ministry of Natural Resources and Ecology, the Federal Security Service, the Federal Service for Ecological, Technological and Nuclear Supervision, and the Federal Fishery Agency. The “exclusive economic zone” of the Russian Federation is the marine area located outside Russia’s territorial sea and limited by the 200 nautical miles line as measured from the inner border of the territorial sea (or as otherwise provided by international law or treaty), including all islands located within this area except for mountain rocks ineligible for living and economic activities. Oil and gas exploration and extraction activities that are carried out within this area are governed by the Federal Law No. 191-FZ “On the Exclusive Economic Zone of the Russian Federation,” dated December 17, 1998, as amended (the “EEZ Law”), the Subsoil Resources Law, the Continental Shelf Law, the PSA Law and any international treaties to which the Russian Federation is a party.

The EEZ Law focuses on protecting and monitoring the natural resources of the exclusive economic zone, including fish, sea mammals, mollusks and crustaceans, as well as minerals and tides. The EEZ Law establishes a framework of protective measures with respect to dumping, accidents at sea, and protection and conservation of ice-bound and other specially designated areas. Users of resources in the exclusive economic zone must pay fees to the federal budget for such use.

Regulating the activities of natural monopolies

The Natural Monopoly Law defines “natural monopoly” as a condition of the commodities market in which the demand for products is satisfied more effectively in the absence of competition and in which another product cannot readily be substituted for the monopoly product. The Natural Monopoly Law sets out, *inter alia*, a regime for the regulation of entities which have a natural monopoly over natural gas transportation. It also establishes an authority which supervises:

- transactions involving the acquisition by a natural monopoly entity of title to (or the rights to use) assets where the value of such assets exceeds 10% of the natural monopoly entity’s own capital (as calculated in accordance with its latest audited balance sheet). Such transactions may not be related to the industry of the natural monopoly entity;
- investments whose value exceeds 10% of the natural monopoly entity’s own capital (as calculated in accordance with its latest audited balance sheet). Such investments may not be related to the industry of the natural monopoly entity; and
- sales, leases or other transactions whereby the natural monopoly entity purchases assets used in the industry that it monopolizes where the value of such assets exceeds 10% of the value of the natural monopoly entity’s own capital (as calculated in accordance with its latest audited balance sheet).

Pursuant to Decree No. 314, dated March 9, 2004, the rule-making authority previously held by the FEC has been transferred to the Ministry of Economic Development and Trade and the control and surveillance functions previously held by the FEC were transferred to the FAS, which supervises the activities set forth in the Natural Monopoly Law. The FTS has been charged with the authority to set tariffs that previously belonged to the former Ministry for Antimonopoly Policy and Support of Entrepreneurship and the Ministry of Economic Development and Trade.

The relevant authority can adopt binding decisions in the case of a breach of the law and issue binding instructions to a natural monopoly to prevent a breach of the law, including instructions on eliminating the consequences of a breach.

The principal methods of regulating the activities of natural monopolies by relevant supervising authorities are:

- price regulation by setting prices (tariffs) or price limits; and

- identifying consumers entitled to obligatory services and setting natural monopoly minimum supply levels for such consumers (with a view to protecting the rights and legal interests of citizens, state security, the environment and cultural values).

As a natural monopoly, we must submit ongoing reports on our activities and drafts of capital investment plans to the relevant supervisory authority pursuant to the Natural Monopoly Law. Such supervisory authority has the right: (i) to regulate natural monopoly entities and to use methods of regulation contemplated by the Natural Monopoly Law including price regulation; (ii) to instruct natural monopoly entities to enter into contracts with those consumers entitled to obligatory service; (iii) to instruct natural monopoly entities to make amendments to existing contracts; (iv) to instruct natural monopoly entities to transfer revenues from activities which contravene the Natural Monopoly Law to the federal budget; and (v) to perform other acts contemplated by federal laws.

On May 7, 2008, the Foreign Investment Law was enacted. This law applies to natural monopolies.

Energy Charter Treaty

The Energy Charter (the “EC”) was conceived at a meeting of the European Council in June 1990 as a means to strengthen the relationship which existed in the energy sector between the USSR, the countries of central and eastern Europe and the countries of western Europe. The EC was officially adopted in December 1991. It is a political declaration on co-operation between eastern and western Europe in the energy sector and is not legally binding on any of the parties who signed the Charter. Currently, the EC has been signed by 54 countries, including member states of the European Union and Russia.

In December 1994, following three years of negotiations, the general intentions contained in the EC were put into a legally binding form, the Energy Charter Treaty. As of December 1, 2007, the Energy Charter Treaty had been signed by 51 countries, including Russia and the member states of the EU, and had been ratified by 46 countries and the EU.

The main objectives of the Energy Charter Treaty are to: (i) provide a stable energy supply; (ii) provide effective production, processing, transportation, distribution and consumption of energy resources; (iii) assist in the development of the European energy market and the improvement of the global energy market through implementing principles of non-discriminatory access and free market pricing; and (iv) legally protect the interests of energy-related companies and entities on issues relating to investments, transit, trade and dispute resolution procedures.

Although Russia signed the Energy Charter Treaty in December 1994, the State Duma has not yet ratified it, in part due to concerns regarding the impact of the Energy Charter Treaty on pipeline access. Although Russia has not ratified the ECT, as a signatory to the Charter it is a member of the Energy Charter Conference and participates in the Energy Charter Secretariat’s day-to-day activities.

Gas Directive

On June 22, 1998, the European Parliament and the Council of the European Union adopted a directive on common rules for the internal market in natural gas (the “1998 Gas Directive”). The 1998 Gas Directive came into force on August 10, 1998. The currently effective Gas Directive 2003/55/EU (the “Gas Directive”) was adopted on June 26, 2003, and effective July 1, 2004, the Gas Directive replaced the 1998 Gas Directive.

The Gas Directive established common rules for the transmission, distribution, supply and storage of natural gas. The Gas Directive sets out rules for the organization of the natural gas sector (including LNG), access to the market, the operation of transmission and distribution systems, and the criteria and procedures for authorizing the transmission, distribution, supply and storage of natural gas in order to open domestic gas markets to competition. The Gas Directive provides that all non-household customers have the right to choose their supplier from July 1, 2004, with all customers to have this right from July 1, 2007. EU member states have the right to accelerate the rate at which they open their markets. While the 1998 Gas Directive provided for the possibility of both regulated and market-based access by third parties to gas transportation and distribution systems and to LNG terminals, the Gas Directive now in effect only provides for regulated access to such facilities. Such access is based on the tariffs that become effective only upon their publication and shall apply uniformly to all consumers.

The implementation of the 1998 Gas Directive led to significant structural changes in the European natural gas market, and the Gas Directive now in effect has brought about a significant

liberalization of the European natural gas market, going further than the Gas Directive's minimum requirements. Even prior to the adoption of the Gas Directive, almost 80% of the total EU market (15 countries) was formally opened to competition.

Russia is the largest exporter of natural gas to western Europe, followed by Norway, Algeria and The Netherlands. EU projections show that in order to meet demand for natural gas and to compensate for the decline in the production of natural gas within the EU, there will be an increasing dependence upon imports from outside the EU. The electricity industry and other sectors of the economy are increasingly using natural gas because of its favorable ecological and technological characteristics, which has increased demand.

As a result of the liberalization of the EU natural gas market, short-term contracts and spot transactions involving natural gas have become more popular. In time, this may have a significant effect on the state of the market. The long-term "take-or-pay" contracts, under which most of Europe's natural gas is supplied by Gazprom and other traditional exporters, however, provide for secure and stable natural gas supplies while at the same time balancing the interests of both exporters and importers. Such contracts are also the main element of major natural gas export financing projects, which provide producers with capital needed for investment in gas field exploration and development and transportation infrastructure. At the same time, these long-term contracts also ensure that gas importers have access to the required quantities of natural gas over long periods at time. In light of anticipated import demand for natural gas in the European countries and the liberalization of the gas market, long-term contracts are likely to be of continued importance.

GENERAL INFORMATION

- (1) It is expected that listing of the Programme in respect of such Notes will be granted on or before July 29, 2008 subject only to the issue of a Global Note in respect of each Series. Prior to official listing, however, dealings will be permitted by the Irish Stock Exchange in accordance with their Guidelines. Transactions will normally be effected for delivery on the third working day after the day of the transaction. However, Notes may be issued pursuant to the Programme which will not be listed on any stock exchange. The Listing Agent is not seeking admission to listing of the Notes on the Irish Stock Exchange for the purposes of the Prospectus Directive on its own behalf, but as agent on behalf of Gazprom and the Issuer.
- (2) The establishment of the Programme was approved by a resolution of the Management Committee of Gazprom on July 31, 2003 and by a resolution of the Board of Directors of the Issuer on September 8, 2003; the update of the Programme was approved by a resolution of Gazprom's Board of Directors on October 17, 2005 and by the Board of Directors of the Issuer on December 5, 2005. The amendment of this Base Prospectus was approved by a resolution of the Issuer's Board of Directors dated July 25, 2008. Gazprom and the Issuer will obtain all necessary consents, approvals and authorizations in Russia and Luxembourg in connection with any Loan and the issue and performance of the corresponding Series of Notes.
- (3) Except as disclosed in this Base Prospectus, there has been no significant change in the financial or trading position of Gazprom or the Group since December 31, 2007 and no material adverse change in the prospects of Gazprom or the Group since December 31, 2006.
- (4) There has been no significant change in the financial or trading position of the Issuer since December 31, 2006 and no material adverse change in the prospects of the Issuer since December 31, 2006.
- (5) Except as disclosed in this Base Prospectus, neither Gazprom nor any of its subsidiaries has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Gazprom is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of Gazprom or the Group.
- (6) The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects, in the context of the issue of the Notes, on the financial position or profitability of the Issuer.
- (7) ZAO PricewaterhouseCoopers Audit has rendered unqualified audit reports on the consolidated annual accounts of Gazprom prepared according to IFRS as at December 31, 2007 and 2006 and for the years then ended. Gazprom publishes interim consolidated unaudited condensed financial statements, prepared in accordance with IAS 34, for the three-month period ended March 31, the six-month period ended June 30 and for the nine-month period ended September 30 in each year. Gazprom does not publish audited or unaudited interim or year-end consolidated or non-consolidated financial statements prepared in accordance with U.S. GAAP. ZAO PricewaterhouseCoopers Audit is a member of the Institute of Professional Accountants of Russia and the Audit Chamber of Russia.
- (8) PricewaterhouseCoopers S.à r.l. have rendered an unqualified audit report on the annual accounts of the Issuer as of December 31, 2006 and 2005 and for the years then ended.
PricewaterhouseCoopers S.à r.l. is a member of the *Institut des Réviseurs d'Entreprises* (the "IRE"). The Issuer does not publish audited or unaudited interim financial statements.
- (9) Certain information with respect to Gazprom's and Gazprom Neft's natural gas, gas condensate and crude oil reserves associated with their respective natural gas, gas condensate and crude oil properties is derived from the reports of DeGolyer and MacNaughton and Miller and Lents, internationally recognized firms of independent reservoir engineers, as of December 31, 2007, and has been included herein upon the authority of said firms as experts with respect to the matters covered by such report and in giving such reports.
- (10) The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code and the International Securities Identification Number ("ISIN") and (where applicable) the CUSIP number and the identification number for any other relevant

clearing system for each Series of Notes will be set out in the relevant Final Terms. In addition, application may be made to have Rule 144A Notes designated as eligible for trading in PORTAL.

- (11) The issue price and the amount of the relevant Notes will be determined before filing of the relevant Final Terms of each Series, based on then prevailing market conditions. Gazprom and the Issuer do not intend to provide any post-issuance information in relation to any issues of Notes.
- (12) For so long as the Programme remains in effect or any Notes remain outstanding, the following documents in physical form will be available from the date hereof, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of the Principal Paying Agent and the offices of the Paying Agent in Dublin:
- the articles of association of the Issuer and the charter of Gazprom;
 - the Trust Deed (which includes the form of the Global Notes and the Definitive Notes);
 - the Agency Agreement;
 - the Dealer Agreement;
 - the Facility Agreement;
 - the audited consolidated financial statements of Gazprom as of December 31, 2007, 2006 and 2005 and for the years then ended, in each case together with the audit reports thereon;
 - the audited annual accounts of the Issuer as of December 31, 2006 and 2005 and for the years then ended, in each case together with the audit reports thereon;
 - each Final Terms for Notes which are listed on the Irish Stock Exchange or any other stock exchange (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer, Gazprom and the Principal Paying Agent as to its holding of Notes and identity); and
 - a copy of this Base Prospectus together with any supplement to this Base Prospectus or further Base Prospectus.

GLOSSARY OF SELECTED TERMS

“bbls”	Billions of barrels
“bboe”	Billion barrels of oil equivalent
“bcf”	Billion cubic feet
“bcm”	Billion cubic meters, as measured under one atmosphere of pressure at 20°C
“Board of Directors”	Gazprom’s board of directors, consisting of 11 members and appointed pursuant to the Joint Stock Companies Law and the Charter
“boe”	Barrel of oil equivalent
“central and eastern Europe”	For the purposes of this Base Prospectus: Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Former Yugoslav Republic of Macedonia, Hungary, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia
“CBR”	Central Bank of the Russian Federation
“Charter”	Gazprom’s Charter of May 31, 1996, as amended
“Constitution”	The constitution of the Russian Federation adopted on December 12, 1993
“Energy Charter Treaty”	Treaty between European states, the main objective of which is to assist in the development of the European energy market
“EU”	European Union
“Europe”	For the purposes of this Base Prospectus, central and eastern Europe and western Europe
“Far Abroad”	For the purposes of this Base Prospectus, refers to countries other than Russia and the FSU countries
“FSU”	Excluding Russia, the countries which formerly comprised the Soviet Union: Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan
“FTS”	Federal Tariffs Service of the Russian Federation, established pursuant to Decree No. 314 dated March 9, 2004 as the successor to, <i>inter alia</i> , the domestic gas price and transport tariff regulation functions of the Federal Energy Commission
“Gas Directive”	A directive adopted by the European Parliament and the Council, which came into force in August 1998 and was replaced by a new Gas Directive in June 2003, with the purpose of establishing common rules for the organization and functioning of the European natural gas market
“General Meeting of Shareholders”	Gazprom’s highest authority in accordance with its Charter, with exclusive power over various aspects of Gazprom’s management
“IFRS”	International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board
“International Energy Agency”	A forum with 26 member countries that serves as a forum in which to share energy information, coordinate energy policies and cooperate in the development of energy programs, and is an authoritative source for energy statistics worldwide
“kW”	Kilowatt
“kWh”	Kilowatt hour
“Management Committee”	An executive body of Gazprom, which, along with the Management Committee Chairman, manages Gazprom’s day-to-day affairs and implements the strategic plans of the Board of Directors

“mcf”	Thousand cubic feet
“mcm”	Thousand cubic meters, as measured under one atmosphere of pressure at 20°C
“mtoe”	Million metric tons of oil equivalent
“mmbbls”	Millions of barrels
“mmboe”	Million barrels of oil equivalent
“mmcm”	Million cubic meters, as measured under one atmosphere of pressure at 20°C
“State Duma”	Lower chamber of the Russian parliament
“tcf”	Trillion cubic feet
“tcm”	Trillion cubic meters, as measured under one atmosphere of pressure at 20°C
“toe”	Metric ton of oil equivalent
“ton”	One metric ton
“UGSS”	Unified Gas Supply System
“U.K.”	United Kingdom
“U.S.”	United States of America
“western Europe”	For the purposes of this Base Prospectus: Andorra, Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Greenland, Iceland, Republic of Ireland, Italy, Liechtenstein, Luxembourg, Malta, Monaco, the Netherlands, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, Turkey and the United Kingdom

CONVERSION TABLE

metric measure	U.S. measure
1 bcm	35,316,000,000 cubic feet
1 tcm	35,316,000,000,000 cubic feet
1 ton.....	1,000 kilos, 2,204.6 pounds, 7.33 barrels of crude oil, 8.18 barrels of gas condensate
1 kilometer	Approximately 0.62 miles
1 metric ton of oil equivalent	25.2 quadrillion btus (British Thermal Units), approximately 1,125 mcm of natural gas
1 barrel of gas condensate	1 barrel of oil equivalent (boe)
1 mcm of natural gas.....	5.89 barrels of oil equivalent (boe)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of OAO Gazprom

- 1 We have audited the accompanying consolidated financial statements of OAO Gazprom and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated statement of income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

- 2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

- 3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

- 6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.
- 7 Without qualifying our opinion, we draw your attention to Notes 23 and 36 to the consolidated financial statements. The Government of the Russian Federation has a controlling interest in OAO Gazprom and Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

Moscow, Russian Federation

27 June 2008

The firm is an authorized licensee of the tradename and logo of PricewaterhouseCoopers.

ОАО ГАЗПРОМ

**IFRS CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2007**

(In millions of Russian Roubles)

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

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

ОАО ГАЗПРОМ

**IFRS CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2007**

(In millions of Russian Roubles)

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

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

ОАО ГАЗПРОМ

**IFRS CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007**

(In millions of Russian Roubles)

Notes	31 December	
	2007	2006
	Operating activities	
29	598,508	544,088
	Investing activities	
11	(543,420)	(441,001)
	(11,289)	(20,736)
	70,154	34,501
11	(19,661)	(17,275)
30	(6,749)	(5,091)
12, 34	(280,511)	(60,182)
34, 36	(59,890)	—
32	(18,518)	—
12	21,434	—
	10,487	423
	(64,929)	(1,653)
	10,651	(1,237)
	(892,241)	(512,251)
	Financing activities	
19	658,802	188,727
19	(198,527)	(179,262)
	(96,030)	89,210
18	70,901	54,269
23	(69,329)	(33,898)
	(74,152)	(38,668)
23	(659,223)	(246,535)
23	676,933	254,887
7	331	5,684
	309,706	94,414
	(6,088)	(3,893)
	9,885	122,358
	269,224	146,866
	279,109	269,224

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

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**IFRS CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007**

(In millions of Russian Roubles)

Notes	Attributable to equity holders of OAO Gazprom						Total equity	
	Number of shares outstanding (billions)	Share capital	Treasury shares	Retained earnings and other reserves	Total	Minority interest		
	Balance as of 31 December 2005	22.9	325,194	(19,504)	2,270,727	2,576,417	142,317	2,718,734
	Gains arising from change in fair value of available-for-sale financial assets		—	—	57,129	57,129	—	57,129
23	Translation differences		—	—	(236)	(236)	—	(236)
	Net gain recognised directly in equity		—	—	56,893	56,893	—	56,893
	Profit for the year		—	—	613,345	613,345	23,116	636,461
	Total recognised income for the year		—	—	670,238	670,238	23,116	693,354
23	Net treasury shares transactions	0.0	—	(22,297)	12,895	(9,402)	—	(9,402)
23	Return of social assets to governmental authorities		—	—	(14,562)	(14,562)	—	(14,562)
23	Dividends		—	—	(34,233)	(34,233)	(9,110)	(43,343)
31	Business combinations and purchase of minority interest ..		—	—	—	—	5,039	5,039
	Balance as of 31 December 2006	22.9	325,194	(41,801)	2,905,065	3,188,458	161,362	3,349,820
	Gains arising from change in fair value of available-for-sale financial assets		—	—	21,201	21,201	—	21,201
23	Translation differences		—	—	4,829	4,829	—	4,829
	Net gain recognised directly in equity		—	—	26,030	26,030	—	26,030
	Profit for the year		—	—	658,038	658,038	36,947	694,985
	Total recognised income for the year		—	—	684,068	684,068	36,947	721,015
23	Net treasury shares transactions ..	0.1	—	12,162	3,631	15,793	—	15,793
23	Return of social assets to governmental authorities		—	—	(3,897)	(3,897)	—	(3,897)
23	Dividends		—	—	(59,765)	(59,765)	(9,320)	(69,085)
32	Deconsolidation of NPF Gazfund	0.6	—	8,838	111,015	119,853	90,844	210,697
33	Acquisition of the controlling interest in OAO Mosenergo		—	—	6,279	6,279	61,964	68,243
	Disposal of shares in subsidiaries		—	—	—	—	20,511	20,511
	Balance as of 31 December 2007	23.6	325,194	(20,801)	3,646,396	3,950,789	362,308	4,313,097

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

ОАО ГАЗПРОМ

NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2007

(In millions of Russian Roubles)

1 NATURE OF OPERATIONS

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

The Group is involved in the following principal activities:

- Exploration and production of gas;
- Transportation of gas;
- Domestic and export sale of gas;
- Production of crude oil and gas condensate; and
- Processing of oil, gas condensate and other hydrocarbons and sales of refined products.

Other activities primarily comprise banking, electric and heat energy generation, construction, and media.

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

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

3 BASIS OF PRESENTATION

These consolidated financial statements are prepared in accordance with, and comply with, International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board (“IFRS”).

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

The consolidated financial statements of the Group are prepared under the historical cost convention except for certain financial instruments as described in Note 4. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (see Note 4).

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

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

ОАО ГАЗПРОМ

NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2007

(In millions of Russian Roubles)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Group accounting

Subsidiary undertakings

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries, including those entities and businesses that are under common control. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

Goodwill and minority interest

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill is tested annually for impairment as well as when there are indications of impairment. For the purpose of impairment testing goodwill is allocated to the cash generating units that are expected to benefit from synergies from the combination.

When a business combination involves more than one transaction any adjustment to those fair values relating to previously held interests of the Group is recognised as a revaluation in equity. No such revaluation is made when the Group acquires an additional minority interest in subsidiaries.

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

Minority interest represents that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. In accordance with the provisions of IFRS 3 "Business Combinations", the acquirer recognises the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date, and any minority interest in the acquiree is stated at the minority's proportion of the net fair value of those items.

Associated undertakings and jointly controlled entities

Associated undertakings are undertakings over which the Group has significant influence and that are neither a subsidiary nor an interest in a joint venture. Significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of an entity but has no control or joint control over those policies. Associated undertakings are accounted for using the equity method.

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2007

(In millions of Russian Roubles)

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

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

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

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

4.2 Financial assets

The Group classifies its financial assets in the following categories: (a) financial assets at fair value through profit or loss, (b) available-for-sale financial assets, and (c) loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are expected to be realized within 12 months of the balance sheet date. There were no financial assets designated at fair value through profit or loss at inception as of 31 December 2007 and 2006.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the consolidated statement of income in the period in which they arise.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets are measured at fair value. Investments in quoted equity instruments classified as available-for-sale financial assets are measured at quoted market prices as of the reporting date. Investments in equity instruments for which there are no available market quotations are accounted for fair value. The fair value of unquoted debt instruments classified as available-for-sale financial assets is determined using discounted cash flow valuation techniques based on prevailing market interest rate for similar instruments.

Gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity and shown net of income tax in the consolidated statement of changes in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the consolidated statement of income as gains (losses) on disposal of available-for-sale financial assets. Interest income on available-for-sale debt instruments calculated using the effective interest method is recognized in the consolidated statement of income.

(In millions of Russian Roubles)

(c) Loans and receivables

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

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

Impairment of financial assets

At each balance sheet date the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity instruments recognised in the consolidated statement of income are not reversed through the consolidated statement of income but recognized in statement of changes in equity.

4.3 Derivative financial instruments

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

The Group routinely enters into sale and purchase transactions for the purchase and sales of gas, oil, oil products and other goods. The majority of these transactions are entered to meet supply requirements to fulfill contract obligations and for own consumption and are not within the scope of IAS 39 "Financial instruments: recognition and measurement".

Derivative contracts embedded into sales-purchase contracts are separated from the host contracts and accounted for separately. Derivatives are carried at fair value with gains and losses arising from changes in the fair values of derivatives included in the consolidated income statement in the period in which they arise.

4.4 Joint ventures

Joint ventures are contractual agreements whereby two or more parties undertake economic activity, which is subject to joint control. Joint ventures are accounted for using the proportionate consolidation method.

4.5 Options on purchase or sale of financial assets

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

4.6 Cash and cash equivalents and restricted cash

Cash comprises cash on hand and balances with banks. Cash equivalents comprise short-term investments which are readily converted to cash and have an original maturity of three months or less. Restricted cash balances comprise balances of cash and cash equivalents which are restricted as

(In millions of Russian Roubles)

to withdrawal under the terms of certain borrowings or under banking regulations. Restricted cash balances are excluded from cash and cash equivalents in the consolidated statement of cash flows.

4.7 Accounts receivable

Accounts receivable are carried at original invoice amount less provision made for impairment of these receivables. The provision for impairment of accounts receivable is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 12 months overdue) are considered indicators that the receivable is impaired. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowings at the date of origination of the receivable. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of income within operating expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables or is included in other operating expenses.

4.8 Value added tax (VAT)

Output VAT related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated balance sheet on a gross basis and disclosed separately as a current asset and liability, except for VAT related to assets under construction included within other non-current assets. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

4.9 Inventories

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

4.10 Property, plant and equipment

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

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

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

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

Property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

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(In millions of Russian Roubles)

The return to a governmental authority of state social assets (such as rest houses, housing, schools and medical facilities) retained by the Group at privatisation is recorded only upon the termination of operating responsibility for the social assets. The Group does not possess ownership rights for the assets, but records them on its balance sheet up to the return to a governmental authority because the Group controls the benefits which are expected to flow from the use of the assets and bears all associated operational and custody risks. These disposals are considered to be shareholder transactions because they represent a return of assets for the benefit of governmental authorities, as contemplated in the original privatisation arrangements. Consequently, such disposals are accounted for as a reduction directly in equity.

Depletion of acquired production licenses is calculated using the units-of-production method for each field based upon proved reserves. Oil and gas reserves for this purpose are determined in accordance with the guidelines of the Society of Petroleum Engineers and the World Petroleum Congress, and were estimated by independent reservoir engineers.

Depreciation of assets (other than acquired production licenses) is calculated using the straight-line method over their estimated remaining useful lives, as follows:

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

Depreciation on wells has been calculated on cost, using the straight line method rather than, as is the more generally accepted international industry practice, on the unit-of-production method. The difference between straight line and units-of-production is not material for these consolidated financial statements. Assets under construction are not depreciated until they are placed in service.

Depreciation expenses in the consolidated statement of income do not include depreciation, which is considered a cost of self-constructed assets and thus capitalized rather than expensed and depreciation that is capitalized as a component of gas inventories.

4.11 Impairment of assets

At each balance sheet date, management assesses whether there is any indication that the recoverable value of the Group's assets has declined below the carrying value. When such a decline is identified, the carrying amount is reduced to the estimated recoverable amount. The amount of the reduction is recorded in the consolidated statement of income in the period in which the reduction is identified.

4.12 Borrowings

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

4.13 Deferred tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred tax assets and liabilities are recorded for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2007

(In millions of Russian Roubles)

profit will be available against which the deferred tax asset will be realised or if it can be offset against existing deferred tax liabilities. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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

4.14 Foreign currency transactions

Monetary assets and liabilities held by the Group as of 31 December 2007 and 2006 and denominated in foreign currencies are translated into Russian Roubles at the official exchange rates prevailing at those dates. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised as exchange gains or losses in the consolidated statement of income.

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

The official US dollar to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 24.55 and 26.33 as of 31 December 2007 and 2006, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 35.93 and 34.70 as of 31 December 2007 and 2006, respectively.

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

4.15 Provisions for liabilities and charges

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

4.16 Equity

Treasury shares

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

A contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount. When the financial liability is recognised initially its fair value is reclassified from equity. The premium received for a written option is added directly to equity.

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(In millions of Russian Roubles)

Dividends

Dividends are recognised as a liability and deducted from equity when they are recommended by the Board of Directors and approved at the General Meeting of Shareholders.

4.17 Revenue recognition

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

Natural gas prices and gas transportation tariffs in the Russian Federation are established mainly by the Federal Tariffs Service. Export gas prices for sales to European countries are indexed mainly to oil products prices, as stipulated in long-term contracts. Export gas prices for sales to Former Soviet Union countries are generally based on contracts, renegotiated periodically.

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

Mutual cancellation and other non-cash transactions

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

Sales and purchases that are expected to be settled by mutual settlements, barter or other non-cash settlements are recognised based on fair value of consideration to be received or given up in non-cash settlements. The fair value is determined with reference to observable market information.

Non-cash transactions have been excluded from the consolidated cash flow statement. Investing and financing activities and the total of operating activities represent actual cash flows.

Promissory notes

Promissory notes issued by the Group are recorded initially at the fair value of the consideration received or the fair value of the note, which is determined using the prevailing market rate of interest for a similar instrument.

In subsequent periods, promissory notes are stated at amortised cost using the effective yield method. Any difference between the fair value of the consideration (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the promissory note.

4.18 Interest

Interest income and expense are recognised in the consolidated statement of income for all interest bearing financial instruments on an accrual basis using the effective yield method. Interest income includes nominal interest and accrued discount and premium. When loans become doubtful of collection, they are written down to their recoverable amounts (using the original effective rate) and interest income is thereafter recognised based on the same effective rate of interest.

4.19 Research and development

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

(In millions of Russian Roubles)

4.20 Employee benefits

Pension and other post-retirement benefits

The Group operates a defined benefit plan, concerning the majority employees of the Group. Pension costs are recognised using the projected unit credit method. The cost of providing pensions is charged to staff expense within operating expenses in the consolidated statement of income so as to spread the regular cost over the service lives of employees. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the terms to maturity approximating the terms of the related liability. Actuarial gains and losses are recognised over the average remaining service lives of employees, if gains and losses fall outside a “corridor” of plus or minus 10% of unrecognized gains or losses (see Note 22).

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

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

Social expenses

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

4.21 Financial instruments

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

Accounting for financial guarantee contracts

Financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

Fair value disclosure

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

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

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

4.22 Recent accounting pronouncements

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

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Effective 1 January 2007, the Group adopted IFRS 7 “Financial Instruments: Disclosures” (“IFRS 7”) and the complementary Amendment to IAS 1 “Presentation of Financial Statements – Capital Disclosures”. IFRS 7 introduced new disclosures relating to financial instruments and did not have any impact on the classification and valuation of the Group’s financial instruments. IFRS 7 replaced IAS 30 “Disclosures in the Financial Statements of Banks and Similar Financial Institutions”, and some of the requirements in IAS 32 “Financial Instruments: Disclosure and Presentation” (“IAS 32”). The Amendment to IAS 1 introduced disclosures about level of the Group’s capital and how it manages capital. The new disclosures are made in these consolidated financial statements.

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

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

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards where applicable, otherwise IAS 8 “Accounting policies, changes in accounting estimates and errors” was followed. All standards adopted by the Group require retrospective application.

The following new Standards and amendments to Standards are not yet effective and have not been applied in preparing these Financial Statements:

- IFRS 8 “Operating Segments” (“IFRS 8”), which is effective for annual periods beginning on or after 1 January 2009. The standard replaces IAS 14 “Segment reporting”. The standard requires an entity to adopt the “management approach” to reporting of performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operations segments. Such information may be different from what is used to prepare the income statement and balance sheet. The IFRS therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognised in the income statement and balance sheet. Management does not expect IFRS 8 to materially affect the Group’s financial statements.
- Amendment to IAS 23 “Borrowing costs” (“IAS 23”), which is effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 23 removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The application of these amendments is not expected to materially affect the Group’s consolidated financial statements.
- IFRIC 12 “Service Concession Arrangements” (“IFRIC 12”), which is effective for annual periods beginning on or after 1 January 2008. Service concessions are arrangements whereby a government or other public sector entity grants contracts for the supply of public services – such as roads, airports and other facilities – to private sector operators. The interpretation addresses how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements. The application of IFRIC 12 is not expected to materially affect the Group’s consolidated financial statements.

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- IFRIC 13 “Customer Loyalty Programmes” (“IFRIC 13”), which is effective for annual periods beginning on or after 1 July 2008. IFRIC 13 addresses whether the entity’s obligations to provide free or discounted goods or services in the future should be recognized and measured, and if consideration is allocated to the award credits how much should be allocated to them, when revenue should be recognized and, if a third party supplies the awards, how revenue should be measured. The application of IFRIC 13 is not expected to materially affect the Group’s consolidated financial statements.
- Amendment to IAS 1 “Presentation of Financial Statements” (“IAS 1”), which is effective for annual periods beginning on or after 1 January 2009. The main change in IAS 1 is the replacement of the statement of income by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances.
- Amendment to IAS 32 and IAS 1 (“Puttable financial instruments and obligations arising on liquidation”), which is effective from 1 January 2009. The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. Management does not expect the amendment to materially affect the Group’s consolidated financial statements.
- Amendment to IAS 27 “Consolidated and Separate Financial Statements” (“IAS 27”), which is effective for annual periods beginning on or after 1 July 2009. The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.
- Amendment to IFRS 3 “Business Combinations” (“IFRS 3”), which is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3

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brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

- Amendment to IFRS 2 “Share-based Payment” (“Vesting Conditions and Cancellations”), which is effective for annual periods beginning on or after 1 January 2009. The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The application of the amended standard is not expected to materially affect the Group’s financial statements.
- Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. Management does not expect the amendments to have any material effect on the Group’s consolidated financial statements.
- Amendment to IFRS 1 and IAS 27 (“Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate”), which is effective for annual periods beginning on or after 1 January 2009. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Group’s consolidated financial statements.

5 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES

5.1 Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 37).

5.2 Uncertain tax positions

The Group’s uncertain tax positions (potential tax gains and losses) are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management based on the interpretation of current tax laws. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle tax obligations at the balance sheet date.

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5.3 Assumptions to determine amount of provisions

Impairment provision for accounts receivable

The impairment provision for accounts receivable is based on the Group's assessment of the collectibility of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher or lower than the estimates, the actual results could differ from these estimates. The charges (and releases) for impairment of accounts receivable may be material (see Note 25).

Impairment of available-for-sale financial assets

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

Impairment of other assets

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

Accounting for provisions

Accounting for impairment includes provisions against capital construction projects, financial assets, other long-term assets and inventory obsolescence. Because of the Group's operating cycle, certain significant decisions about capital construction projects are made after the end of the calendar year. Accordingly, the Group typically has larger impairment charges or releases in the fourth quarter of the fiscal year as compared to other quarters.

5.4 Site restoration and environmental costs

Site restoration costs that may be incurred by the Group at the end of the operating life of certain of the Group's facilities and properties are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The cost is depreciated through the consolidated statement of income on a straight-line basis over the asset's productive life. Changes in the measurement of an existing site restoration obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period. IFRS prescribes the recording of liabilities for these costs. Estimating the amounts and timing of those obligations that should be recorded requires significant judgement. This judgement is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration are subject to change because of change in laws and regulations, and their interpretation.

5.5 Useful lives of property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

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

5.6 Consolidation of subsidiaries

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

5.7 Fair value estimation for financial instruments

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

5.8 Fair value estimation for acquisitions

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

5.9 Accounting for plan assets and pension liabilities

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

6 SEGMENT INFORMATION

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

- Production of gas – exploration and production of gas;
- Transport – transportation of gas;
- Distribution – domestic and export sale of gas;
- Production of crude oil and gas condensate – exploration of oil and gas condensate, sales of crude oil and gas condensate;
- Refining – processing of oil, gas condensate and other hydrocarbons, and sales of refined products; and
- Other – other activities, including banking, electric and heat energy generation.

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

	Production of gas	Transport	Distribution	Production of crude oil and gas condensate	Refining	Other	Total
31 December 2007							
Segment assets	1,096,544	1,685,608	555,074	704,395	333,051	1,149,205	5,523,877
Associated undertakings and jointly controlled entities	74,664	32,258	51,178	457,972	33,346	20,985	670,403
Unallocated assets							849,638
Inter-segment eliminations							(251,362)
Total assets							6,792,556
Segment liabilities	102,058	150,933	178,399	90,399	89,601	283,446	894,836
Unallocated liabilities							1,835,985
Inter-segment eliminations							(251,362)
Total liabilities							2,479,459
Capital additions	187,486	193,664	39,379	62,427	39,195	46,251	568,402
Depreciation	43,404	83,238	1,143	33,426	14,379	7,987	183,577
Charge for impairment provisions and other provisions	8,789	20,497	1,462	1,824	3,811	6,029	42,412
Unallocated impairment provisions and other provisions							1,526
Total impairment provisions and other provisions							43,938
31 December 2006							
Segment assets	938,003	1,535,281	443,162	582,427	316,182	837,760	4,652,815
Associated undertakings and jointly controlled entities	69,116	32,161	22,298	125,443	32,507	36,617	318,142
Unallocated assets							535,875
Inter-segment eliminations							(196,907)
Total assets							5,309,925
Segment liabilities	73,383	165,451	165,071	54,028	69,571	184,108	711,612
Unallocated liabilities							1,445,400
Inter-segment eliminations							(196,907)
Total liabilities							1,960,105
Capital additions	114,023	215,121	19,492	50,972	19,257	13,920	432,785
Depreciation	38,859	73,229	981	35,127	15,268	3,982	167,446
Charge for impairment provisions and other provisions	15,585	16,169	502	1,032	2,438	7,246	42,972
Unallocated impairment provisions and other provisions							499
Total impairment provisions and other provisions							43,471

Segment assets consist primarily of property, plant and equipment and current assets. Unallocated assets include VAT recoverable, cash and cash equivalents, restricted cash and other non-current assets.

Segment liabilities comprise operating liabilities, excluding items such as taxes payable, and provisions for liabilities and charges.

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

	Production of gas	Transport	Distribution	Production of crude oil and gas condensate	Refining	Other	Total
Year ended 31 December 2007							
Segment revenues							
Inter-segment sales	245,206	493,517	64,560	95,418	6,242	—	904,943
External sales	5,623	41,740	1,522,080	167,758	492,438	160,828	2,390,467
Total segment revenues	250,829	535,257	1,586,640	263,176	498,680	160,828	3,295,410
Segment expenses							
Inter-segment expenses	(5,129)	(51,669)	(722,383)	—	(110,013)	(15,749)	(904,943)
External expenses	(225,579)	(337,159)	(486,476)	(174,729)	(297,746)	(131,231)	(1,652,920)
Total segment expenses	(230,708)	(388,828)	(1,208,859)	(174,729)	(407,759)	(146,980)	(2,557,863)
Segment result	20,121	146,429	377,781	88,447	90,921	13,848	737,547
Unallocated operating expenses ...							(35,769)
Operating profit							701,778
Share of net income of associated undertakings and jointly controlled entities	4,409	2,654	5,461	4,299	6,795	616	24,234
Year ended 31 December 2006							
Segment revenues							
Inter-segment sales	223,437	441,205	41,531	56,752	7,739	—	770,664
External sales	4,242	34,500	1,407,377	171,709	434,985	99,298	2,152,111
Total segment revenues	227,679	475,705	1,448,908	228,461	442,724	99,298	2,922,775
Segment expenses							
Inter-segment expenses	(5,361)	(44,217)	(650,978)	—	(70,108)	—	(770,664)
External expenses	(201,340)	(284,034)	(364,880)	(119,693)	(317,901)	(72,636)	(1,360,484)
Total segment expenses	(206,701)	(328,251)	(1,015,858)	(119,693)	(388,009)	(72,636)	(2,131,148)
Segment result	20,978	147,454	433,050	108,768	54,715	26,662	791,627
Unallocated operating expenses ...							(3,439)
Operating profit							788,188
Share of net income of associated undertakings and jointly controlled entities	1,488	1,048	5,915	4,777	8,910	4,225	26,363

The inter-segment sales mainly consist of:

- Production of gas – sale of gas to the Distribution segment;
- Transport – rendering transportation services to the Distribution segment;
- Distribution – sale of gas to the Transport for own needs and the Other segments for electric and heat energy generation;
- Production of crude oil and gas condensate – sale of oil and gas condensate to the Refining segment for further processing;
- Refining – sale of refined hydrocarbon products to other segments.

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

Included within unallocated expenses are corporate expenses, including provision for the impairment of certain financial assets.

Substantially all of the Group's operating assets are located in the Russian Federation. Sales to different geographical regions are disclosed in Note 24.

7 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Balances included within cash and cash equivalents in the consolidated balance sheet represent cash on hand and balances with banks. Included within restricted cash are balances of cash and cash equivalents totalling RR 2,974 and RR 2,877 as of 31 December 2007 and 2006, respectively, which are restricted as to withdrawal under the terms of certain borrowings. In addition, restricted cash comprises cash balances of RR 9,051 and RR 9,479 as of 31 December 2007 and 2006, respectively, in subsidiary banks, which are restricted as to withdrawal under banking regulations.

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

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

Sovereign credit rating of the Russian Federation published by Standard and Poor's is BBB¹.

1 By international scale in foreign currency.

8 SHORT-TERM FINANCIAL ASSETS

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

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

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

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

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

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

9 ACCOUNTS RECEIVABLE AND PREPAYMENTS

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

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

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

As of 31 December 2007 and 2006 other receivables include RR 215,926 and RR 243,735, respectively, relating to the operations of OAO Gazprombank. These balances mainly represent deposits with other banks and loans issued to customers at commercial rates based on credit risks and maturities.

As of 31 December 2007 the average effective interest rates on banking deposits and loans ranged from 7.0% to 13.5% on balances denominated in Russian Roubles and from 3.3% to 8.8% on balances denominated in foreign currencies.

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

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

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

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

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

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

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

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

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

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

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

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

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

10 INVENTORIES

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

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11 PROPERTY, PLANT AND EQUIPMENT

	Pipelines	Wells	Machinery and equipment	Buildings and roads	Production licenses	Social assets	Assets under construction	Total
As of 31.12.05								
Cost.....	1,517,601	529,470	906,902	948,566	305,314	113,109	340,947	4,661,909
Accumulated depreciation	(740,681)	(220,192)	(460,566)	(411,576)	(970)	(36,913)	—	(1,870,898)
Net book value at 31.12.05.....	776,920	309,278	446,336	536,990	304,344	76,196	340,947	2,791,011
Depreciation	(41,543)	(15,411)	(42,201)	(32,693)	(29,895)	(2,677)	—	(164,420)
Additions	18	—	13,402	653	—	633	418,079	432,785
Acquisition of subsidiaries.....	122	—	6,662	3,229	—	—	10,489	20,502
Transfers	103,507	67,749	108,936	90,560	—	4,160	(374,912)	—
Disposals.....	(22)	(311)	(3,242)	(4,130)	—	(17,597)	(11,644)	(36,946)
Charge for impairment provision	—	—	—	—	—	—	(7,964)	(7,964)
Net book value at 31.12.06	839,002	361,305	529,893	594,609	274,449	60,715	374,995	3,034,968
As of 31.12.06								
Cost.....	1,621,078	595,817	1,020,655	1,024,589	305,314	90,081	374,995	5,032,529
Accumulated depreciation	(782,076)	(234,512)	(490,762)	(429,980)	(30,865)	(29,366)	—	(1,997,561)
Net book value at 31.12.06.....	839,002	361,305	529,893	594,609	274,449	60,715	374,995	3,034,968
Depreciation	(44,298)	(18,561)	(60,286)	(36,273)	(22,619)	(2,559)	—	(184,596)
Additions	69	84	16,422	903	17,595	188	533,141	568,402
Acquisition of subsidiaries.....	—	—	49,834	42,920	—	25	16,575	109,354
Transfers	77,261	60,499	109,078	100,231	—	2,861	(349,930)	—
Disposals.....	(146)	(594)	(5,464)	(7,413)	—	(5,748)	(18,276)	(37,641)
Charge for impairment provision	55	38	132	22	—	—	(257)	(10)
Net book value at 31.12.07.....	871,943	402,771	639,609	694,999	269,425	55,482	556,248	3,490,477
As of 31.12.07								
Cost.....	1,698,146	654,681	1,190,182	1,156,744	322,907	83,597	556,248	5,662,505
Accumulated depreciation	(826,203)	(251,910)	(550,573)	(461,745)	(53,482)	(28,115)	—	(2,172,028)
Net book value at 31.12.07.....	871,943	402,771	639,609	694,999	269,425	55,482	556,248	3,490,477

At each balance sheet date management assesses whether there is any indication that the recoverable value has declined below the carrying value of the property, plant and equipment. As a result of management's assessment of the recoverable amount, assets under construction are presented net of a provision for impairment of RR 92,060 and RR 91,803 as of 31 December 2007 and 2006, respectively. Charges for impairment provision of assets under construction primarily relate to projects that have been indefinitely suspended and currently excluded from the Group's investment program. Operating assets are shown net of provision for impairment of RR 2,326 and RR 2,574 as of 31 December 2007 and 2006, respectively. Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatisation with a net book value of RR 7,080 and RR 11,573 as of 31 December 2007 and 2006, respectively.

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

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

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Depreciation includes RR 1,518 and RR 1,548 for the years ended 31 December 2007 and 2006, respectively, which is related to equipment used in the construction of assets and thus capitalized rather than expensed in the consolidated statement of income. RR 16,470 and RR 20,507 of depreciation as of 31 December 2007 and 2006, respectively, is capitalized as a component of gas inventories.

The Group's gas fields are operated under licenses granted by federal and local authorities. The licenses for exploration, assessment and production of hydrocarbons for the Group's major fields expire between 2012 and 2030, however they may be extended. Based upon the terms included in the licenses and past experience, management believes the existing licenses on properties expected to produce hydrocarbons will be extended past their current expiration dates at insignificant additional costs. Because of the expected extensions, the assets are being depreciated over their estimated useful lives beyond the end of the current license term.

12 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES

Notes		Carrying value as of		Group's share of the profit	
		2007	2006	(loss) of the entities for the Year ended 31 December	
34	Sakhalin Energy Investment Company Ltd.	239,606	—	669	—
	OA0 NGK Slavneft	145,464	140,165	10,007	13,662
	OA0 Tomskneft	88,181	—	—	—
36	OA0 Novatek.....	68,973	63,426	3,631	538
36	WINGAS GmbH.....	31,339	6,197	4,302	3,484
36	SGT EuRoPol GAZ S.A.	31,131	30,865	2,664	1,174
	OA0 Moscovsky NPZ.....	15,548	15,266	282	24
33, 36	OA0 Mosenergo.....	—	16,751	(125)	2,571
	Wintershall AG.....	10,259	—	—	—
	OA0 Moscow United Electricity Network Company*	—	5,643	—	834
36	TOO KazRosGaz	4,388	1,934	2,747	1,341
36	OA0 Stroytransgaz.....	3,638	3,559	79	22
	OA0 Moscow City Electricity Network Company*	—	2,823	—	618
	AO Latvijas Gaze	3,571	3,109	563	352
	OA0 Moscow Heating Network Company*	—	2,412	—	(77)
	AO Lietuvos Dujos.....	2,095	1,756	391	179
	ZAO Nortgaz.....	2,843	2,272	795	974
	Blue Stream Pipeline company B.V.....	895	1,063	(10)	(126)
36	RosUkrEnergo AG.....	73	—	(5,720)	(2,624)
	Other (net of provision for impairment of RR 5,819 and RR 5,312 as of 31 December 2007 and 2006, respectively)	22,399	20,901	3,959	3,417
		<u>670,403</u>	<u>318,142</u>	<u>24,234</u>	<u>26,363</u>

* Companies established under restructuring of OA0 Mosenergo, disposed in current period due to the deconsolidation of NPF Gazfund (see Note 32).

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

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

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

Investment in RosUkrEnerg0 AG with a carrying value of RR 73 and nil as of 31 December 2007 and 2006, respectively is stated net of unrealized profit in the amount of RR 448 and RR 5,166 arising from the Group's gas sales to RosUkrEnerg0 AG (see Note 36).

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

	Assets	Liabilities	Revenues	Profit (loss)
31 December 2007				
Sakhalin Energy Investment Company Ltd.*	454,270	83,904	21,143	(31,442)
OAO NGK Slavneft.....	402,339	101,857	159,584	13,625
WINGAS GmbH	112,143	92,028	215,230	8,733
OAO Novatek	103,975	22,163	62,431	18,736
RosUkrEnerg0 AG	96,683	74,609	259,059	20,770
OAO Tomskneft*	74,479	53,067	—	—
SGT EuRoPol GAZ S.A.....	62,469	25,571	14,249	5,441
OAO Stroytransgaz	58,244	39,315	37,971	428
Blue Stream Pipeline company B.V.	57,621	54,155	6,734	(39)
OAO Moscovsky NPZ	43,633	3,615	9,611	696
AO Lietuvos Dujos	25,420	5,472	10,413	1,056
AO Latvijas Gaze	24,374	7,694	12,081	1,656
Wintershall AG*.....	23,216	12,261	—	—
TOO KazRosGaz	9,693	916	15,921	5,494
ZAO Nortgaz	7,911	2,339	5,498	1,559
31 December 2006				
OAO NGK Slavneft.....	367,224	86,062	173,376	27,405
WINGAS GmbH	126,930	119,023	208,639	11,027
RosUkrEnerg0 AG	115,256	94,036	196,641	21,644
OAO Novatek**.....	84,326	15,650	11,726	2,777

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	<u>Assets</u>	<u>Liabilities</u>	<u>Revenues</u>	<u>Profit (loss)</u>
OAO Mosenergo	75,958	36,844	67,243	8,596
Blue Stream Pipeline company B.V.	62,094	58,336	6,949	(501)
SGT EuRoPol GAZ S.A.	57,819	29,465	11,760	2,447
OAO Moscow united Electricity Network Company	47,626	17,601	25,448	2,989
OAO Stroytransgaz	46,285	27,214	45,923	669
OAO Moskovsky NPZ	42,931	3,615	6,884	63
AO Lietuvos Dujos	23,064	4,478	7,729	587
OAO Moscow city Electricity Network Company	19,580	2,242	10,069	2,140
OAO Moscow Heating Network Company	16,982	4,648	11,524	(276)
AO Latvijas Gaze	16,515	4,777	8,978	1,034
ZAO Nortgaz	6,277	1,825	5,552	1,980
TOO KazRosGaz	5,191	1,323	11,112	2,682

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

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

The estimated fair values of investments in associated undertakings for which there are published price quotations were as follows:

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

Principal associated undertakings and jointly controlled entities

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Entities	Country	Nature of operations	% of ordinary shares held as of 31 December*	
			2007	2006
ZAO Achimgaz	Russia	Gas production	50	50
Blue Stream Pipeline company B.V. (BSPC)	Netherlands	Construction, gas transportation	50	50
Bosphorus Gaz Corporation A.S.	Turkey	Gas distribution	40	40
Centrex Beteiligungs GmbH	Austria	Gas distribution	38	38
SGT EuRoPol GAZ	Poland	Transportation and gas distribution	48	48
Gaz Project Development Central Asia AG	Switzerland	Gas distribution	50	50
AO Gazum	Finland	Gas distribution	25	25
TOO KazRosGaz	Kazakhstan	Gas processing and sale of gas and refined products	50	50
AO Latvijas Gaze	Latvia	Transportation and gas distribution	34	34
AO Lietuvos Dujos	Lithuania	Transportation and gas distribution	37	37
AO Moldovagaz	Moldova	Transportation and gas distribution	50	50
OA0 Moskovsky NPZ	Russia	Processing and distribution of refined products	39	39
ZAO Nortgaz	Russia	Exploration and production of gas	51	51
OA0 Novatek	Russia	Production and distribution of gas	19	19
AO Overgaz Inc.	Bulgaria	Gas distribution	50	50
ZAO Panrusgaz	Hungary	Gas distribution	40	40
AO Prometheus Gas	Greece	Foreign trade activity, construction	50	50
RosUkrEnergo AG	Switzerland	Gas distribution	50	50
Sakhalin Energy Investment Company Ltd.	Bermuda Islands	Oil production	50	—
AO NGK Slavneft	Russia	Sale of oil and refined products	50	50
OA0 Tomskneft	Russia	Oil production	50	—
AO Turusgaz	Turkey	Gas distribution	45	45
Wintershall AG	Germany	Investments into oil-and-gas assets	49	—
Wintershall Gas GmbH (WINGAS GmbH)	Germany	Transportation and gas distribution	50	35
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	Germany	Gas distribution	50	50
Wintershall Erdgas Handelshaus ZUG AG (WIEE)	Switzerland	Gas distribution	50	50

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

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13 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

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

Long-term accounts receivable and prepayments include amounts due from South Pars of RR nil and RR 3,082 as of 31 December 2007 and 2006, respectively. South Pars is a contractual arrangement with Total South Pars and Parsi International Ltd. established in 1997 to provide services to the National Iranian Oil Company in relation to the development of the South Pars gas and condensate field in Iran.

As of 31 December 2007 and 2006, long-term accounts receivable and prepayments include RR 180,620 and RR 99,380, respectively, relating to operations of OAO Gazprombank. These balances mainly represent long-term loans issued to customers at commercial rates based on credit risks and maturities.

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

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

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

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

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

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

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

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

14 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

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

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

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

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

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

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

15 OTHER NON-CURRENT ASSETS

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

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16 ACCOUNTS PAYABLE AND ACCRUED CHARGES

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

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

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

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

17 OTHER TAXES PAYABLE

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

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

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

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

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

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

Fair values approximate the carrying value of these liabilities.

19 LONG-TERM BORROWINGS AND PROMISSORY NOTES

	Currency	Final Maturity	31 December	
			2007	2006
Long-term borrowings payable to:				
Calyon Credit Agricole CIB*	US dollar	2010	54,289	—
ABN AMRO*	US dollar	2012	49,614	—
ABN AMRO	US dollar	2013	44,334	47,558
Loan participation notes issued in October 2007**	Euro	2018	43,651	—
Citibank International PLC*	US dollar	2008	43,051	—
Credit Swiss International	US dollar	2009	40,250	—
Loan participation notes issued in June 2007**	GBP	2013	39,435	—
Loan participation notes issued in May 2005**	Euro	2015	37,165	35,886
Loan participation notes issued in September 2003**	Euro	2010	36,668	35,408
Loan participation notes issued in December 2005**	Euro	2012	36,033	34,793
Loan participation notes issued in November 2006**	US dollar	2016	33,360	35,786
Loan participation notes issued in March 2007**	US dollar	2022	32,568	—
Loan participation notes issued in August 2007**	US dollar	2037	31,521	—
Loan participation notes issued April 2004**	US dollar	2034	29,900	32,074
Deutsche Bank AG	US dollar	2014	29,618	31,776
Loan participation notes issued in October 2006**	Euro	2014	29,225	27,317
Structured export notes issued in July 2004***	US dollar	2020	28,645	33,901
Loan participation notes issued in June 2007**	Euro	2014	25,382	—
Eurobonds issued in September 2005*****	US dollar	2015	24,768	26,557
ABN AMRO*	US dollar	2010	24,429	35,765
Dresdner Bank AG*	US dollar	2010	23,283	33,143
Loan participation notes issued in November 2006**	Euro	2017	18,685	17,443
Eurobonds issued in October 2003*****	US dollar	2008	18,607	19,927
Loan participation notes issued in March 2007**	Euro	2017	18,127	—
Salomon Brothers AG	US dollar	2009	17,524	18,798
Eurobonds issued in April 2007*****	US dollar	2010	17,145	—
Dresdner Bank AG*	US dollar	2008	15,516	33,135
Credit Swiss International	Euro	2009	14,467	13,969
Salomon Brothers AG	US dollar	2009	12,903	15,921
Credit Swiss International	US dollar	2017	12,877	—
Depfa Bank*	US dollar	2008	12,590	13,502
Sumitomo Mitsui Banking Corporation Europe Limited*	US dollar	2008	12,326	13,179
Credit Swiss International	US dollar	2009	12,292	—
Credit Swiss International	US dollar	2008	12,041	—
JP Morgan Chase bank	Rouble	2010	11,833	—
Citibank International PLC	US dollar	2009	10,908	16,646
Eurobonds issued in February 2007*****	Rouble	2010	10,219	—

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

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

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

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

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

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

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

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	31 December	
	2007	2006
RR denominated borrowings (including current portion of RR 29,373 and RR 18,447 as of 31 December 2007 and 2006, respectively)	165,146	60,753
Foreign currency denominated borrowings (including current portion of RR 244,770 and RR 119,207 as of 31 December 2007 and 2006, respectively)..	1,090,405	745,244
	<u>1,255,551</u>	<u>805,997</u>
	31 December	
	2007	2006
Due for repayment:		
Between one and two years	188,171	111,280
Between two and five years	277,673	242,230
After five years.....	515,564	314,833
	<u>981,408</u>	<u>668,343</u>

Long-term borrowings include fixed rate loans with a carrying value of RR 869,194 and RR 563,142 and fair value of RR 871,253 and RR 592,833 as of 31 December 2007 and 2006, respectively. All other long-term borrowings generally have variable interest rates linked to LIBOR, and the carrying amounts approximate fair value.

As of 31 December 2007 and 2006, long-term borrowings of OAO Gazprombank are equal to RR 162,259 and RR 84,628, including current portion of RR 20,611 and nil, respectively.

As of 31 December 2007 and 2006, the Group did not have formal hedging arrangements to mitigate its foreign exchange risk or interest rate risk.

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

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

As of 31 December 2007 and 2006 long-term borrowings of RR 28,645 and RR 33,901, respectively, inclusive of current portion of long-term borrowings, are secured by revenues from export supplies of gas to Western Europe.

The Group has no subordinated debt and no debt that may be converted into an equity interest in the Group (see Note 23).

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

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20 PROFIT TAX

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

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

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

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24%.

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

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

Taxable temporary differences in relation to financial assets include difference on fair value adjustment on RAO UES of Russia shares in the amount of RR 3,554 and RR 17,725 for the years ended 31 December 2007 and 2006, respectively. No current profit tax was paid on this revaluation.

Deferred tax assets and liabilities arise mainly from differences in the taxable and financial reporting bases of property, plant and equipment. These differences for property, plant and equipment are historically due to the fact that a significant proportion of the tax base was determined upon independent appraisals, the most recent of which was recognised for profit tax purposes as of

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1 January 2001, while the financial reporting base is historical cost restated for changes in the general purchasing power of the RR to 31 December 2002. From 1 January 2002, any revaluation of property, plant and equipment recorded in the statutory accounting records is not recorded in the tax accounting records and therefore has no impact on temporary differences.

In accordance with the tax legislation of the Russian Federation tax losses and current tax assets of the different companies in the Group may not be set off against taxable profits and current tax liabilities of other group companies. In addition, the tax base is separately determined for main activities, income from operations with securities and service activities. Tax losses arising from one type of activity can not be offset with taxable profit of other types of activity. Also, a deferred tax asset of one company (type of activity) of the Group can not be offset against a deferred tax liability of another company (type of activity). As of 31 December 2007 and 2006 deferred tax assets in the amount of RR 17,583 and RR 14,053, respectively, have not been recorded for the deductible temporary differences for which it is not probable that sufficient taxable profit of the Group subsidiaries will be available to allow the benefit of that deferred tax asset to be utilised.

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

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21 FINANCIAL INSTRUMENTS

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

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

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

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

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The Group enters into contracts to receive and deliver commodities in accordance with its expected purchase, sale or usage requirements. Such contracts are not considered derivatives and are not included in the table above.

22 PROVISIONS FOR LIABILITIES AND CHARGES

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

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

Principal actuarial assumptions used:

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

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

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

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

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

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

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

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

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

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

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

Changes in the plan assets are as follows:

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

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

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

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

Funded status of the plan:

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

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

23 EQUITY

Share capital

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

Dividends

In 2007, OAO Gazprom accrued and paid dividends in the nominal amount of 2.54 roubles per share for the year ended 31 December 2006. In 2006, OAO Gazprom accrued and paid dividends in the nominal amount of 1.50 roubles per share for the year ended 31 December 2005.

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

Treasury shares

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

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

Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of the Rouble as of 31 December 2002, when Russian economy ceased to be hyperinflationary under IAS 29 “Financial

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Reporting in Hyperinflation Economies". Also, retained earnings and other reserves include translation losses arising on the translation of the net assets of foreign subsidiaries, associated undertakings and jointly controlled entities in the amount of RR 25,325 and RR 20,496 as of 31 December 2007 and 2006, respectively.

Retained earnings and other reserves include a statutory fund for social assets, created in accordance with Russian legislation at the time of privatisation. From time to time, the Group negotiates to return certain of these assets to governmental authorities and this process may continue. Social assets with a net book value of RR 3,897 and RR 14,562 have been transferred to governmental authorities during the years ended 31 December 2007 and 2006, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

The basis of distribution is defined by legislation as the current year net profit of the Group parent company, as calculated in accordance with RAR. For 2007 year, the statutory profit of the parent company was RR 360,450. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in these consolidated financial statements.

24 SALES

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

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25 OPERATING EXPENSES

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

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

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

Taxes other than on income consist of:

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

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26 FINANCE INCOME AND EXPENSE

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

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

27 RECONCILIATION OF PROFIT, DISCLOSED IN CONSOLIDATED STATEMENT OF INCOME, PREPARED IN ACCORDANCE WITH RUSSIAN ACCOUNTING RULES (RAR) TO PROFIT DISCLOSED IN IFRS STATEMENT OF INCOME

	Year ended 31 December	
	2007	2006
RAR net profit for the period per consolidated statutory accounts.....	543,800	578,688
Effects of IFRS adjustments:		
Gain on NPF Gazfund deconsolidation.....	44,692	—
Reclassification of revaluation of RAO UES of Russia (including deferred tax effect of RR 3,554 and RR 17,725, respectively).....	(18,168)	(56,129)
Elimination of gain of OAO Novatek shares revaluation.....	(9,553)	(34,984)
Differences in depreciation	78,564	72,167
Reversal of goodwill depreciation	25,347	25,069
Loan interest capitalized.....	19,661	17,275
Impairment provisions and other provisions.....	(39,668)	16,431
Fair value adjustment for currency options	(1,320)	1,459
Write-off of research and development expenses capitalized for RAR purposes	(3,402)	(3,438)
Fair value adjustment on commodity contracts.....	(2,534)	4,169
Gain from change in fair value of call option.....	50,738	—
Other effects.....	6,828	15,754
IFRS profit for the period.....	<u>694,985</u>	<u>636,461</u>

28 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF ОАО ГАЗПРОМ

Earnings per share have been calculated by dividing the profit, attributable to equity shareholders of OAO Gazprom by the weighted average number of shares outstanding during the year, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares.

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

There are no dilutive financial instruments outstanding.

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29 NET CASH PROVIDED BY OPERATING ACTIVITIES

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

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

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

30 SUBSIDIARY UNDERTAKINGS

Principal subsidiaries

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

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Subsidiary undertaking	Location	% of share capital as of 31 December*	
		2007	2006
Gazprom Marketing and Trading Ltd.....	United Kingdom	100	100
ОАО Gazprom-Media	Russia	100	100
ООО Gazprom-Media Holding	Russia	100	—
ОАО Gazprom Neft	Russia	76	76
ООО Gazpromneftfinans****	Russia	100	100
ООО Gazpromneft-Khantos****	Russia	100	100
Gazprom Neft Trade GmbH****	Austria	100	100
ООО Gazpromneft-Vostok****	Russia	100	100
Gazprom Netherlands B.V.....	Netherlands	100	—
Gazprom Oil and Gas Germany GmbH	Germany	100	—
ООО Gazprom Pererabotka	Russia	100	—
ООО Gazprom PKhG	Russia	100	—
ООО GazpromPurInvest	Russia	100	100
ОАО Gazpromregiongaz	Russia	100	100
Gazprom Sakhalin Holding B.V.....	Netherlands	100	—
ZАО Gazpromstroyengineering	Russia	100	100
ООО Gazpromtrans.....	Russia	100	100
ООО Gazprom transgas Ekaterinburg (ООО Uraltransgaz)	Russia	100	100
ООО Gazprom transgas Kazan (ООО Tattransgaz)	Russia	100	100
ООО Gazprom transgas-Kuban	Russia	100	—
ООО Gazprom transgas Makhachkala (ООО Kaspygazprom)	Russia	100	100
ООО Gazprom transgas Moskva (ООО Mostransgaz)	Russia	100	100
ООО Gazprom transgas Nizhny Novgorod (ООО Volgotransgaz).....	Russia	100	100
ООО Gazprom transgas Samara (ООО Samaratransgaz)	Russia	100	100
ООО Gazprom transgas Saratov (ООО Yugtransgaz)	Russia	100	100
ООО Gazprom transgas St. Petersburg (ООО Lentransgaz)....	Russia	100	100
ООО Gazprom transgas Surgut (ООО Surgutgazprom).....	Russia	100	100
ООО Gazprom transgas Tchaikovsky (ООО Permtransgaz)....	Russia	100	100
ООО Gazprom transgas Tomsk (ООО Tomsktransgaz)	Russia	100	100
ООО Gazprom transgas Ufa (ООО Bashtransgaz).....	Russia	100	100
ООО Gazprom transgas Ukhta (ООО Severgazprom)	Russia	100	100
ООО Gazprom transgas Volgograd (ООО Volgogradtransgaz)	Russia	100	100
ООО Gazprom transgas Yugorsk (ООО Tyumentransgaz).....	Russia	100	100
ОАО Gazpromtrubinvest.....	Russia	99	99
ZАО Gazprom YuRGM Trading.....	Russia	100	—
ООО Gaztorgpromstroy	Russia	100	100
ZАО Gerosgaz	Russia	51	51
ООО Gazprombank-Invest***	Russia	99	99
АВ GPB-Ipoteka (ZАО)***	Russia	99	99
ООО Jester***	Russia	100	19
Jones Resources Ltd.....	Virgin Islands	100	100
ZАО Kaunasskaya power station.....	Lithuania	99	99
ООО Kavkaztransgaz	Russia	100	100
ООО Kommerts Investments***	Russia	100	100
ОАО Krasnodargazstroy	Russia	51	51
ООО Krasnoyarsgazdobycha.....	Russia	100	100
ОАО Krasnoyarskgazprom	Russia	75	75
ООО Kubangazprom.....	Russia	100	100
ZАО Kuzbassnefteproduct****	Russia	100	100

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Subsidiary undertaking	Location	% of share capital as of 31 December*	
		2007	2006
Leadville Investments Ltd.....	Cyprus	100	100
ОАО Ленгазспецстрой.....	Russia	63	63
ООО Межрегионгаз.....	Russia	100	100
ОАО Минералние удобрениа**.....	Russia	51	—
ОАО Мосэнерго.....	Russia	53	20
ЗАО Нефтехим-Инвест**.....	Russia	100	100
ООО НК Сибнефт-Югра****.....	Russia	99	99
ООО Новourengoysky GCC.....	Russia	100	100
ОАО NTV-PLUS.....	Russia	100	78
ЗАО Пургаз.....	Russia	51	51
ООО Региональная финансовая компания***.....	Russia	100	100
ОАО Регионгазholding.....	Russia	56	56
Richard Enterprises S.A.****.....	Virgin Islands	100	100
ЗАО Росшельф.....	Russia	57	57
ЗАО RSh-Centre.....	Russia	99	99
ОАО Севернефтегазпром.....	Russia	75	100
ООО Севморнефтегаз.....	Russia	100	100
ООО Сибирская метанолная химическая компания**.....	Russia	100	100
ООО Сибнефт-AZS Service****.....	Russia	100	100
ООО Сибнефт-Чукотка****.....	Russia	100	100
ОАО Сибнефт-Ноябрьскнефтегаз****.....	Russia	100	100
ОАО Сибнефт-Омский НПЗ****.....	Russia	100	100
ОАО Сибнефт-Омскнефтепродукт****.....	Russia	100	100
ЗАО Сибнефт-Северо-Запад****.....	Russia	100	100
Sib Oil Trade Ltd****.....	Virgin Islands	100	100
ОАО АК Сибур**.....	Russia	100	99
ОАО Сибур Holding**.....	Russia	74	100
ОАО Сибур-Минералние удобрения**.....	Russia	100	100
ЗАО Сибур-Моторс**.....	Russia	100	100
ОАО Сибур-Нефтехим**.....	Russia	100	100
ОАО Сибур-Русские шинь**.....	Russia	100	100
ОАО Сибур-Тюмень**.....	Russia	100	100
ОАО СибурТюменьГаз**.....	Russia	100	100
ЗАО Спеццистерни**.....	Russia	100	100
ОАО Спецгазавтотранс.....	Russia	51	51
ЗАО Стимул.....	Russia	100	100
ОАО Томскгазпром.....	Russia	100	100
ООО Томскнеfteхим**.....	Russia	100	100
ОАО Тsentrenergogaz.....	Russia	62	62
ОАО Тsentrgaz.....	Russia	100	99
ОАО Телекомпания NTV.....	Russia	100	100
ООО VNIIGAZ.....	Russia	100	100
ОАО Востокгазпром.....	Russia	99	99
ЗАО Ямалгазинвест.....	Russia	100	100
ОАО Ярославский шинный завод**.....	Russia	88	88
ООО Юграгазпереработка**.....	Russia	51	100
ОАО Зapsibгазпром.....	Russia	77	77
Zarubezhgaz Management und BeteiligungsGesellschaft mbH (ZMB GmbH).....	Germany	100	100
ОАО Завод Бензол**.....	Russia	100	100

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<u>Subsidiary undertaking</u>	<u>Location</u>	<u>% of share capital as of 31 December*</u>	
		<u>2007</u>	<u>2006</u>
OOO Zapolyarneft****	Russia	100	100
ZGG Cayman Holding Ltd	Cayman Islands	100	100
ZGG Cayman Ltd	Cayman Islands	100	100
ZMB (Schweiz) AG.....	Switzerland	100	100

* Cumulative share of Group companies in charter capital of investments

** Subsidiaries of Sibur-Holding

*** Subsidiaries of OAO Gazprombank

**** Subsidiaries of OAO Gazprom neft

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

31 MINORITY INTEREST

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

32 EFFECT OF THE DECONSOLIDATION OF NPF GAZFUND

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

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

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

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

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

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

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

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

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33 ACQUISITION OF THE CONTROLLING INTEREST IN ОАО МОСЕНЕРГО

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

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

Details of the assets and liabilities acquired are as follows:

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

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

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

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

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

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34 ACQUISITION OF INTEREST IN SAKHALIN ENERGY INVESTMENT COMPANY LTD.

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

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

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

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

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

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

36 RELATED PARTIES

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

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding as of 31 December 2007 are detailed below.

Government

The Government of the Russian Federation is the ultimate controlling party of OAO Gazprom and has a controlling interest (including both direct and indirect ownership) of over 50% in OAO Gazprom.

As of 31 December 2007 38.373% of OAO Gazprom issued shares were directly owned by the Government. Another 11.63% were owned by Government controlled entities. The Government does not prepare financial statements for public use. Following the General Meeting of Shareholders in June 2007, the 11 seats on the Board of Directors include six State representatives, three management representatives and two independent directors. Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

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As a condition of privatisation in 1992, the Government imposed an obligation on the Group to provide an uninterrupted supply of gas to customers in the Russian Federation at government controlled prices.

Parties under control of the Government

In the normal course of business the Group enters into transactions with other entities under the Government control. Prices of natural gas sales and electricity tariffs in Russia are regulated by the Federal Tariffs Service (“FTS”). Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

As of and for the year ended 31 December 2007 and 2006, respectively, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

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

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Note	As of 31 December 2007		For the year ended 31 December 2007		
	Assets	Liabilities	Revenues	Expenses	
	Transactions and balances with the Government				
	Current profit tax	15,488	18,957	—	213,844
	Unified social tax	359	1,015	—	27,918
	VAT recoverable/payable.....	180,851	21,311	—	—
	Custom duties	23,339	—	—	—
25	Other taxes.....	9,293	27,919	—	187,245
	Transactions and balances with other parties under control of the Government				
	Gas sales	—	—	169,812	—
	Accounts receivable/payable	81,610	4,250	—	—
25	Electricity and heating expenses	—	—	—	42,559
	Oil transportation expenses	—	—	—	43,672
	Loans	—	32,107	—	—
	Interest income/expense	—	—	3,982	1,006
	Short-term financial assets	28,762	—	1,694	—
	Investments in associated undertakings and jointly controlled entities	34,828	—	5,377	—
	Available-for-sale long-term financial assets	128,599	—	—	—

Gas sales and respective accounts receivable, electricity and heating expenses, oil transportation expenses and respective accounts payable included in the table above are related to major State controlled utility companies.

See the consolidated statement of changes in equity for returns of social assets to governmental authorities during the years ended 31 December 2007 and 2006. See Note 11 for net book values as of 31 December 2007 and 2006 of social assets vested to the Group at privatisation.

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

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of OAO Gazprom) short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies, amounted to approximately RR 1,697 and RR 1,173 for the years ended 31 December 2007 and 2006, respectively. Such amounts include personal income tax and are net of unified social tax. Government officials, who are directors, do not receive remuneration from the Group. The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the annual employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement benefit programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Gazfund, and a one-time payment from the Group at their retirement date. The employees of the majority of Group companies are eligible for such benefits.

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Associated undertakings and jointly controlled entities

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

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

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

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

Gas is sold to associated undertakings in the Russian Federation mainly at the rates established by the Federal Tariffs Service. Gas is sold outside the Russian Federation (except for that sold to AO Moldovagaz and RosUkrEnergog AG) under long-term contracts based on world commodity prices.

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

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

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

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

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

ОАО ГАЗПРОМ

NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2007

(In millions of Russian Roubles)

37 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS

Operating environment

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in the Russian Federation. Due to the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. It is impossible to predict the nature and frequency of these developments and events associated with these risks as well as their effect on future operations and earnings.

Legal proceedings

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

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments.

Management believes that its interpretation of the relevant legislation as of 31 December 2007 is appropriate and all of the Group's tax, currency and customs positions will be sustainable.

Group changes

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

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be reliably estimated, but could be material. In the current enforcement climate under existing legislation, the Group management believes that there are no significant liabilities for environmental damage, other than amounts that have been accrued in the consolidated financial statements.

Social commitments

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

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Financial guarantees

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

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

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

In July 2005, BSPC refinanced some of the existing liabilities, guaranteed by the Group, by means of repayment of the liabilities to a group of Italian and Japanese banks. For the purpose of this transaction loans in the amount of USD 1,185.3 million were received from Gazstream S.A. The Group guaranteed the above loans. As of 31 December 2007 and 2006, outstanding amounts of these loans were RR 23,652 (USD 964 million) and RR 29,386 (USD 1,116 million), respectively, which were guaranteed by the Group, pursuant to its obligations.

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

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

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

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

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

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

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

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(In millions of Russian Roubles)

Other guarantees

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

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

Capital commitments

In the normal course of business, the Group has entered into contracts for the purchase of property, plant and equipment. The Management Committee has submitted to the Board of Directors the amended investment programme for 2008 including capital expenditure budget of about RR 479 billion.

Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 December 2007 no loss is expected to result from these long-term commitments.

Loan commitments

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

38 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the financial performance of the Group.

Market risk

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

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from assets and liabilities denominated in foreign currencies.

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2007

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

Notes	<u>Russian Rouble</u>	<u>US dollar</u>	<u>Euro</u>	<u>Other</u>	<u>Total</u>	
As of 31 December 2007						
Financial assets						
Current						
	Cash and cash equivalents.....	161,507	63,892	46,147	7,563	279,109
	Short-term financial assets.....	111,103	1,790	199	819	113,911
9	Trade and other accounts receivable	365,938	124,598	76,817	10,002	577,355
Non-current						
13	Long-term accounts receivable and prepayments.....	253,951	14,490	1,989	—	270,430
	Available for sale long-term financial assets	246,828	6,000	1,853	1,529	256,210
	Total financial assets	1,139,327	210,770	127,005	19,913	1,497,015
Financial liabilities						
Current						
16	Accounts payable and accrued charges.....	378,802	44,857	34,668	14,292	472,619
	Short-term borrowings and current portion of long-term borrowings	158,704	313,520	30,460	1,386	504,070
	Short-term promissory notes payable.....	21,455	—	—	—	21,455
Non-current						
	Long-term borrowings.....	135,773	563,070	282,565	—	981,408
	Long-term promissory notes payable.....	3,555	—	—	—	3,555
	Total financial liabilities	698,289	921,447	347,693	15,678	1,983,107
As of 31 December 2006						
Financial assets						
Current						
	Cash and cash equivalents.....	168,373	80,659	11,919	8,273	269,224
	Short-term financial assets.....	101,049	4,336	48	1,141	106,574
9	Trade and other accounts receivable	348,209	124,202	66,279	9,291	547,981
Non-current						
13	Long-term accounts receivable and prepayments.....	162,684	26,929	2,203	—	191,816
	Available for sale long-term financial assets.....	146,181	3,585	554	554	150,874
	Total financial assets	926,496	239,717	81,003	19,259	1,266,469
Financial liabilities						
Current						
16	Accounts payable and accrued charges.....	267,797	64,382	35,432	20,635	388,246
	Short-term borrowings and current portion of long-term borrowings..	119,761	152,441	18,075	428	290,705
	Short-term promissory notes payable	102,859	—	—	—	102,859

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(In millions of Russian Roubles)

Notes	Russian Rouble	US dollar	Euro	Other	Total
Non-current					
Long-term borrowings	42,306	430,181	194,118	1,738	668,343
Long-term promissory notes payable	17,186	—	—	—	17,186
Total financial liabilities	549,909	647,004	247,625	22,801	1,467,339

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

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

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

(b) Cash flow and fair value interest rate risk

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

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

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

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

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

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(c) Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for natural gas, crude oil and related products, and their impact on the Group's future performance and results of operations. A decline in the prices could result in a decrease in net income and cash flows. An extended period of low prices could precipitate a decrease in development activities and could cause a decrease in the volume of reserves available for transportation and processing through the Group's systems or facilities and ultimately impact the Group's ability to deliver under its contractual obligations.

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

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

(d) Securities price risk

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

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

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

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

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

Credit risk

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

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

Financial instruments, which potentially subject the Group to concentrations of credit risk, primarily consist of accounts receivable including promissory notes. Credit risks related to accounts receivable are systematically monitored and are considered when impairment provisions are created.

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

OAo GAZPROM

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(In millions of Russian Roubles)

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

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, management aims to maintain flexibility in funding by keeping committed funds available.

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

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

See discussion of financial instrument derivatives in Note 21.

Capital risk management

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

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

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

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

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2007

(In millions of Russian Roubles)

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

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

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

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

39 POST BALANCE SHEET EVENTS

Agreement on OAO Sibur Holding

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

Investments

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

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

Loans and borrowings

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

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

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

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

ОАО ГАЗПРОМ

INVESTOR RELATIONS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OAO Gazprom

- 1 We have audited the accompanying consolidated financial statements of OAO Gazprom and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated statement of income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

- 2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

- 3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

- 6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.
- 7 Without qualifying our opinion, we draw your attention to Notes 23 and 32 to the consolidated financial statements. The Government of the Russian Federation has a controlling interest in OAO Gazprom and Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

Moscow, Russian Federation

18 June 2007

OAo GAZPROM

**IFRS CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2006**

(In millions of Russian Roubles)

Notes	31 December		
	2006	2005	
	Assets		
	Current assets		
7	Cash and cash equivalents	269,224	146,866
7	Restricted cash	12,356	18,040
8	Short-term financial assets	106,574	79,001
9	Accounts receivable and prepayments	662,040	394,659
10	Inventories	207,459	169,121
	VAT recoverable	140,305	145,484
	Other current assets	84,347	48,282
		1,482,305	1,001,453
	Non-current assets		
11	Property, plant and equipment	3,034,968	2,791,011
12, 32	Investments in associated undertakings and jointly controlled entities	318,142	233,782
13	Long-term accounts receivable and prepayments	251,123	179,187
14	Available-for-sale long-term financial assets	150,874	67,847
15	Other non-current assets	72,513	65,814
		3,827,620	3,337,641
	Total assets	5,309,925	4,339,094
	Liabilities and equity		
	Current liabilities		
16	Accounts payable and accrued charges	398,126	219,983
20	Current profit tax payable	18,957	15,265
17	Other taxes payable	49,423	89,552
18	Short-term borrowings and current portion of long-term borrowings	290,705	180,959
18	Short-term promissory notes payable	102,859	20,710
		860,070	526,469
	Non-current liabilities		
19	Long-term borrowings	668,343	741,849
19	Long-term promissory notes payable	17,186	10,639
	Restructured tax liabilities	822	1,128
22	Provisions for liabilities and charges	119,578	83,794
20	Deferred tax liabilities	275,508	251,868
	Other non-current liabilities	18,598	4,613
		1,100,035	1,093,891
	Total liabilities	1,960,105	1,620,360
	Equity		
23	Share capital	325,194	325,194
23	Treasury shares	(41,801)	(19,504)
23	Retained earnings and other reserves	2,905,065	2,270,727
		3,188,458	2,576,417
31	Minority interest	161,362	142,317
	Total equity	3,349,820	2,718,734
	Total liabilities and equity	5,309,925	4,339,094

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

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**IFRS CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2006**

(In millions of Russian Roubles)

Notes		Year ended 31 December	
		2006	2005
24	Sales.....	2,152,111	1,383,545
25	Operating expenses.....	(1,363,923)	(929,561)
	Operating profit	788,188	453,984
26	Finance income	97,923	53,890
26	Finance expense	(65,220)	(69,926)
12	Share of net income of associated undertakings and jointly controlled entities.....	26,363	11,782
	Gain on disposal of available-for-sale financial assets.....	8,811	385
	Profit before profit tax	856,065	450,115
	Current profit tax expense	(213,844)	(118,028)
	Deferred profit tax expense.....	(5,760)	(16,156)
20	Profit tax expense.....	(219,604)	(134,184)
	Profit for the period	636,461	315,931
	Attributable to:		
	Equity holders of OAO Gazprom	613,345	311,125
31	Minority interest	23,116	4,806
		636,461	315,931
28	Basic and diluted earnings per share for profit attributable to the equity holders of OAO Gazprom (in Roubles)	26.90	14.55

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

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**IFRS CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006**

(In millions of Russian Roubles)

Notes		Year ended 31 December	
		2006	2005
	Operating activities		
29	Net cash provided by operating activities	544,088	272,617
	Investing activities		
11	Capital expenditures.....	(441,001)	(274,376)
	Net change in loans made.....	(20,736)	1,542
	Interest received	34,501	20,715
11	Interest capitalised.....	(17,275)	(15,189)
30	Acquisition of subsidiaries, net of cash acquired.....	(5,091)	(385,033)
	Acquisition of associated undertakings and jointly controlled entities	(60,182)	(2,047)
	Proceeds from associated undertakings and jointly controlled entities	423	17,458
	Purchases of long-term available-for-sale financial assets	(1,653)	(22,556)
	Change in other long-term financial assets	(1,237)	6,076
	Net cash used for investing activities	(512,251)	(653,410)
	Financing activities		
19	Proceeds from long-term borrowings (including current portion)	188,727	596,373
19	Repayment of long-term borrowings (including current portion)	(179,262)	(338,872)
	Net proceeds from issue of promissory notes.....	89,210	2,369
18	Net proceeds from short-term borrowings	54,269	23,162
23	Dividends paid	(33,898)	(23,868)
30	Dividends paid by subsidiaries to previous and minority shareholders	—	(14,682)
	Interest paid	(38,668)	(30,953)
23	Purchases of treasury shares	(246,535)	(126,691)
23	Sales of treasury shares	254,887	337,047
7	Change in restricted cash	5,684	(1,179)
	Net cash provided by financing activities	94,414	422,706
	Effect of exchange rate changes on cash and cash equivalents	(3,893)	(1,204)
	Increase in cash and cash equivalents	122,358	40,709
	Cash and cash equivalents, at the beginning of reporting period .	146,866	106,157
	Cash and cash equivalents, at the end of reporting period	269,224	146,866

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

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**IFRS CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006**

(In millions of Russian Roubles)

Notes	Number of shares outstanding (billions)	Attributable to equity holders of OAO Gazprom				Minority interest	Total equity	
		Share capital	Treasury shares	Retained earnings and other reserves	Total			
	Balance as of 31 December 2004.	20.1	325,194	(41,586)	1,808,865	2,092,473	45,551	2,138,024
	Gains arising from change in fair value of available-for-sale financial assets, net of profit tax.....		—	—	16,484	16,484	—	16,484
23	Translation differences.....		—	—	(4,572)	(4,572)	—	(4,572)
	Net gain recognised directly in equity.....		—	—	11,912	11,912	—	11,912
	Profit for the period.....		—	—	311,125	311,125	4,806	315,931
	Total recognised income for the period		—	—	323,037	323,037	4,806	327,843
23	Net treasury shares transactions.	2.8	—	22,082	164,845	186,927	—	186,927
23	Return of social assets to governmental authorities.....		—	—	(2,162)	(2,162)	—	(2,162)
23	Dividends		—	—	(23,858)	(23,858)	—	(23,858)
31	Business combinations and purchase of minority interest ..		—	—	—	—	91,960	91,960
	Balance as of 31 December 2005	22.9	325,194	(19,504)	2,270,727	2,576,417	142,317	2,718,734
	Gains arising from change in fair value of available-for-sale financial assets, net of profit tax.....		—	—	57,129	57,129	—	57,129
23	Translation differences.....		—	—	(236)	(236)	—	(236)
	Net gain recognised directly in equity.....		—	—	56,893	56,893	—	56,893
	Profit for the period.....		—	—	613,345	613,345	23,116	636,461
	Total recognised income for the period		—	—	670,238	670,238	23,116	693,354
23	Net treasury shares transactions.	0.0	—	(22,297)	12,895	(9,402)	—	(9,402)
23	Return of social assets to governmental authorities.....		—	—	(14,562)	(14,562)	—	(14,562)
23	Dividends		—	—	(34,233)	(34,233)	(9,110)	(43,343)
31	Business combinations and purchase of minority interest ..		—	—	—	—	5,039	5,039
	Balance as of 31 December 2006	22.9	325,194	(41,801)	2,905,065	3,188,458	161,362	3,349,820

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

ОАО ГАЗПРОМ

NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2006

(In millions of Russian Roubles)

1 NATURE OF OPERATIONS

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

Group provides production of oil and oil products. Subsequent to acquisition of a controlling interest in October 2005 in AO Siberian Oil Company, renamed to ОАО Газпром Нефт effective from June 2006, the Group’s production of crude oil and processing of oil significantly increased. The Group is involved in the following principal activities:

- Exploration and production of gas;
- Transportation of gas;
- Domestic and export sale of gas;
- Production of crude oil and gas condensate; and
- Processing of oil, gas condensate and other hydrocarbons and sales of refined products.

Other activities primarily comprise banking, construction and media.

The weighted average number of full time employees during 2006 and 2005 was 440 thousand and 402 thousand, respectively. The average number of employees includes ОАО Газпром Нефт and its consolidated subsidiaries (“Газпром Нефт”).

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

3 BASIS OF PRESENTATION

These consolidated financial statements are prepared in accordance with, and comply with, International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board (“IFRS”).

The consolidated financial statements of the Group are prepared under the historical cost convention except for certain financial instruments as described in Note 4. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (see Note 4).

Certain reclassifications have been made to prior period balances to reflect the revisions to the provisional amounts of assets and liabilities of Газпром Нефт (see Note 30).

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2006

(In millions of Russian Roubles)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Group accounting

Subsidiary undertakings

Subsidiary undertakings that are controlled by the Group have been consolidated. Control occurs when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

Goodwill and minority interest

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill is tested annually for impairment as well as when there are indications of impairment. For the purpose of impairment testing goodwill is allocated to the cash generating units that are expected to benefit from synergies from the combination.

When a business combination involves more than one transaction any adjustment to those fair values relating to previously held interests of the Group is recognised as a revaluation in equity. No such revaluation is made when the Group acquires an additional minority interest in subsidiaries.

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

Minority interest represents that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. In accordance with the provisions of IFRS 3 "Business Combinations", the acquirer recognises the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date, and any minority interest in the acquiree is stated at the minority's proportion of the net fair value of those items.

Associated undertakings

Associated undertakings are undertakings over which the Group has significant influence and that are neither a subsidiary nor an interest in a joint venture. Significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of an entity but has no control or joint control over those policies. Associated undertakings are accounted for using the equity method.

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

The Group's interest in each associated undertaking is carried in the consolidated balance sheet at an amount that reflects cost, including the goodwill at acquisition, the Group's share of profit and

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2006

(In millions of Russian Roubles)

losses and its share of post-acquisition movements in reserves recognized in equity. Provisions are recorded for any impairment in value.

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

4.2 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date. There were no financial assets designated at fair value through profit or loss at inception as of 31 December 2006 and 2005.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets are measured at fair value. Investments in quoted equity instruments classified as available-for-sale financial assets are measured at quoted market prices as of the reporting date. Investments in equity instruments for which there are no available market quotations are accounted for at cost. The fair value of unquoted debt instruments classified as available-for-sale financial assets is determined using discounted cash flow valuation techniques based on prevailing market interest rate for similar instruments.

Gains and losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are included in the consolidated statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity and shown net of income tax in the consolidated statement of changes in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the consolidated statement of income as gains (losses) on disposal of available-for-sale financial assets. Interest income on available-for-sale debt instruments calculated using the effective interest method is recognized in the consolidated statement of income.

Impairment of financial assets

At each balance sheet date the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity instruments recognised in the consolidated statement of income are not reversed through the consolidated statement of income.

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2006

(In millions of Russian Roubles)

4.3 Derivative financial instruments

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

The Group routinely enters into sale and purchase transactions for the purchase and sales of gas, oil, oil products and other goods. The majority of these transactions are entered to meet supply requirements to fulfil contract obligations and for own consumption and are not within the scope of IAS 39 "Financial instruments: recognition and measurement".

Derivative contracts embedded into sales-purchase contracts are separated from the host contracts and accounted for separately. Bifurcated derivatives are carried at fair value with gains and losses arising from changes in the fair values of derivatives included in the consolidated income statement in the period in which they arise.

4.4 Joint ventures and jointly controlled entities

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

4.5 Cash and cash equivalents and restricted cash

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

4.6 Accounts receivable

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

4.7 Value added tax (VAT)

Output VAT added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated balance sheet on a gross basis and disclosed separately as a current asset and liability, except for VAT related to assets under construction included within other non-current assets. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

4.8 Inventories

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

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(In millions of Russian Roubles)

4.9 Property, plant and equipment

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

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

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

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

Property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

The return to a governmental authority of state social assets (such as rest houses, housing, schools and medical facilities) retained by the Group at privatisation is recorded only upon the termination of operating responsibility for the social assets. The Group does not possess ownership rights for the assets, but records them on its balance sheet up to the return to a governmental authority because the Group controls the benefits which are expected to flow from the use of the assets and bears all associated operational and custody risks. These disposals are considered to be shareholder transactions because they represent a return of assets for the benefit of governmental authorities, as contemplated in the original privatisation arrangements. Consequently, such disposals are accounted for as a reduction directly in equity.

Depletion of acquired production licenses is calculated using the units-of-production method for each field based upon proved reserves. Oil and gas reserves for this purpose are determined in accordance with the guidelines of the Society of Petroleum Engineers and the World Petroleum Congress, and were estimated by independent reservoir engineers.

Depreciation of assets (other than acquired production licenses) is calculated using the straight-line method over their estimated remaining useful lives, as follows:

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

Depreciation on wells has been calculated on cost, using the straight line method rather than, as is the more generally accepted international industry practice, on the unit-of-production method. The difference between straight line and units-of-production is not material for these consolidated financial statements. Assets under construction are not depreciated until they are placed in service.

Depreciation expenses in the consolidated statement of income do not include depreciation, that is considered a cost of self-constructed assets and thus capitalized rather than expensed and depreciation that is capitalized as a component of gas inventories.

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2006

(In millions of Russian Roubles)

4.10 Impairment of assets

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

4.11 Borrowings

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

4.12 Deferred tax

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

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

4.13 Foreign currency transactions

Monetary assets and liabilities held by the Group as of 31 December 2006 and 2005 and denominated in foreign currencies are translated into Russian Roubles at the official exchange rates prevailing at those dates. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised as exchange gains or losses in the consolidated statement of income.

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

The official US dollar to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 26.33 and 28.78 as of 31 December 2006 and 2005, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 34.70 and 34.19 as of 31 December 2006 and 2005, respectively.

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

(In millions of Russian Roubles)

4.14 Provisions for liabilities and charges

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

4.15 Equity

Treasury shares

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

A contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount. When the financial liability is recognised initially its fair value is reclassified from equity. The premium received for a written option is added directly to equity.

Dividends

Dividends are recognised as a liability and deducted from equity when they are recommended by the Board of Directors and approved at the General Meeting of Shareholders.

4.16 Revenue recognition

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

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

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

Mutual cancellation and other non-cash transactions

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

Sales and purchases that are expected to be settled by mutual settlements, barter or other non-cash settlements are recognised based on fair value of consideration to be received or given up in non-cash settlements. The fair value is determined with reference to observable market information.

Non-cash transactions have been excluded from the cash flow statement. Investing and financing activities and the total of operating activities represent actual cash flows.

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2006

(In millions of Russian Roubles)

Promissory notes

Promissory notes issued by the Group are recorded initially at the fair value of the consideration received or the fair value of the note, which is determined using the prevailing market rate of interest for a similar instrument.

In subsequent periods, promissory notes are stated at amortised cost using the effective yield method. Any difference between the fair value of the consideration (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the promissory note.

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

4.17 Interest

Interest income and expense are recognised in the consolidated statement of income for all interest bearing instruments on an accrual basis using the effective yield method. Interest income includes nominal interest and accrued discount and premium. When loans become doubtful of collection, they are written down to their recoverable amounts (using the original effective rate) and interest income is thereafter recognised based on the same effective rate of interest.

4.18 Research and development

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

4.19 Employee benefits

Pension and other post-retirement benefits

The Group operates a defined benefit plan, concerning substantially all employees of the Group. Pension costs are recognised using the projected unit credit method. The cost of providing pensions is charged to provision expense within operating expenses in the consolidated statement of income so as to spread the regular cost over the service lives of employees. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the terms to maturity approximating the terms of the related liability. Actuarial gains and losses are recognised over the average remaining service lives of employees, if gains and losses fall outside a “corridor” of plus or minus 10%.

The Group consolidates NPF Gazfund, which administers the Group’s defined benefit plan. Members of Group’s management are trustees of NPF Gazfund. Significant part of assets of NPF Gazfund is represented by shares of OAO Gazprom. These shares are recognized in the consolidated balance sheet as treasury shares.

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

Social expenses

The Group incurs employee costs related to the provision of benefits such as health and social infrastructure and services. These amounts principally represent an implicit cost of employing

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2006

(In millions of Russian Roubles)

production workers and, accordingly, are charged to operating expenses in the consolidated statement of income.

4.20 Financial instruments

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

Accounting for financial guarantee contracts

Financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of the amount determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 “Revenue”.

Fair value disclosure

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

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

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

4.21 Recent accounting pronouncements

In 2006 the Group has adopted all IFRS, amendments and interpretations which are effective 1 January 2006 and which are relevant to its operations, except for IFRS 6 “Exploration and Evaluation of Mineral Resources”, the amendment to IAS 21 “The Effects of Changes in Foreign Exchange Rates: Net Investment in a Foreign Operation”, the amendments to IAS 39 “Cash Flow Hedge Accounting of Forecast Intragroup Transactions”, “The Fair Value Option” and “Financial Guarantee Contracts”, the amendment to IFRS 4 “Financial Guarantee Contracts”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, IFRIC 5 “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds” and IFRIC “Amendment to Standing Interpretations Committee Interpretation 12 (“SIC-12”)” which were all adopted early by the Group in 2005.

Effective 1 January 2006 the Group has applied the amendment to IAS 19 “Employee Benefits-Actuarial Gains and Losses, Group Plans and Disclosures”. The amendment to IAS 19 introduces an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers. No changes in respect of the recognition of actuarial gains and losses were made in the Group’s accounting policies as a result of such adoption.

The adoption of IFRIC 6 “Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment”, IFRIC 7 “Applying the Restatement Approach under IAS 29”, IFRIC 10 “Interim Financial Reporting and Impairment” effective 1 January 2006 did not have a material effect on the consolidated financial statements of the Group.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards where applicable, otherwise IAS 8 was followed. All standards adopted by the Group require retrospective application.

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The following new Standards and amendments to Standards are not yet effective and have not been applied in preparing these Financial Statements:

- IFRS 7 “Financial instruments: Disclosures” (“IFRS 7”) and Amendment to IAS 1 “Presentation of Financial Statements – Capital Disclosures” (“IAS 1”), which are effective for annual periods beginning on or after 1 January 2007. New IFRS 7 introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity’s key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30 “Disclosures in the Financial Statements of Banks and Similar Financial Institutions”, and some of the requirements in IAS 32 “Financial Instruments: Disclosure and Presentation”. The Amendment to IAS 1 introduces disclosures about level of an entity’s capital and how it manages capital. The Group is currently assessing what impact IFRS 7 and the amendment to IAS 1 will have on disclosures in its financial statements.
- IFRS 8 “Operating Segments”, which is effective for annual periods beginning on or after 1 January 2009. The standard replaces IAS 14 “Segment reporting”. The standard requires an entity to adopt the “management approach” to reporting of performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operations segments. Such information may be different from what is used to prepare the income statement and balance sheet. The IFRS therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognised in the income statement and balance sheet. Management does not expect IFRS 8 to materially affect the Group’s financial statements.
- Amendment to IAS 23 “Borrowing costs” (“IAS 23”), which is effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 23 removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The application of these amendments is not expected to materially affect the Group’s financial statements.
- IFRIC 8 “Scope of IFRS 2” (“IFRIC 8”), which is effective for annual periods beginning on or after 1 May 2006. The interpretation explains that, if the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred, this situation typically indicates that other consideration has been or will be received and thus IFRS 2 “Share-based payments” applies. The application of IFRIC 8 is not expected to materially affect the Group’s financial statements.
- IFRIC 9 “Reassessment of Embedded Derivatives” (“IFRIC 9”), which is effective for annual periods beginning on or after 1 June 2006. The interpretation clarifies application of IAS 39 (Amended) for reassessment of the requirement to separate the embedded derivative from the host contract. It states that subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The application of IFRIC 9 is not expected to materially affect the Group’s financial statements.
- IFRIC 11 “IFRS 2-Group and Treasury Share Transactions” (“IFRIC 11”), which is effective for annual periods beginning on or after 1 March 2007. The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. The Interpretation also provides guidance on whether share-based payment

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arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. The application of IFRIC 11 is not expected to materially affect the Group's financial statements.

- IFRIC 12 "Service Concession Arrangements" ("IFRIC 12") which is effective for annual periods beginning on or after 1 January 2008. Service concessions are arrangements whereby a government or other public sector entity grants contracts for the supply of public services – such as roads, airports and other facilities – to private sector operators. The interpretation addresses how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements. The group is currently assessing the effect the application of IFRIC 12 may have on the Group's financial statements.

5 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES

5.1 Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 33).

5.2 Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management based on the interpretation of current tax laws. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle tax obligations at the balance sheet date.

5.3 Assumptions to determine amount of provisions

Impairment provision for accounts receivable

The impairment provision for accounts receivable is based on the Group's assessment of the collectibility of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher or lower than the estimates, the actual results could differ from these estimates. The charges (and releases) for impairment of accounts receivable may be material (see Note 25).

Impairment of other assets

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

Accounting for provisions

Accounting for impairment includes provisions against capital construction projects, financial assets, other long-term assets and inventory obsolescence. Because of the Group's operating cycle, certain significant decisions about capital construction projects are made after the end of the calendar year. Accordingly, the Group typically has larger impairment charges or releases in the fourth quarter of the fiscal year as compared to other quarters. The provisions for liabilities and charges primarily include provisions for environmental and pension liabilities. The Group records impairment or accrues these provisions when its assessments indicate that it is probable that a liability has been incurred or an asset will not be recovered, and an amount can be reasonably estimated. The Group's estimates for provisions for liabilities and charges are based on currently available facts and the Group's estimates of the ultimate outcome or resolution of the liability in the future. Actual results may differ

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from the estimates, and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure. Provisions for pension obligations are periodically adjusted based on updated actuarial assumptions (see Note 22).

5.4 Site restoration and environmental costs

Site restoration costs that may be incurred by the Group at the end of the operating life of certain of the Group's facilities and properties are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The cost is depreciated through the consolidated statement of income on a straight-line basis over the asset's productive life. Changes in the measurement of an existing site restoration obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period. IFRS prescribes the recording of liabilities for these costs. Estimating the amounts and timing of those obligations that should be recorded requires significant judgment. This judgment is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration are subject to change because of change in laws and regulations, and their interpretation.

5.5 Useful lives of property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Management believes hydrocarbon production licenses will be extended past their current expiration dates at insignificant additional costs. Because of the extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

6 SEGMENT INFORMATION

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

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

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

Certain reclassifications have been made to prior period segment information to conform to the current year presentation. The Group previously disclosed oil and gas condensate sales within refining segment, as production and sales of crude oil and gas condensate segment was not presented separately. Management believes that presentation of crude oil and gas condensate production within a separate segment is a fairer presentation of the Group's activities following the acquisition of

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Gazprom Neft (see Note 1) and the related increase in the Group's oil production business. Changes were made to the segment information and Note 24 "Sales" for the year ended 31 December 2005 to reflect the current period presentation.

	Production of gas	Transport	Distribution	Production of crude oil and gas condensate	Refining	Other	Total
31 December 2006							
Segment assets	938,003	1,535,281	443,162	582,427	316,182	837,760	4,652,815
Associated undertakings and jointly controlled entities	69,116	32,161	22,298	125,443	32,507	36,617	318,142
Unallocated assets							535,875
Inter-segment eliminations							(196,907)
Total assets							<u>5,309,925</u>
Segment liabilities	73,383	165,451	165,071	54,028	69,572	184,107	711,612
Unallocated liabilities							1,445,400
Inter-segment eliminations							(196,907)
Total liabilities							<u>1,960,105</u>
Capital additions	114,023	215,121	19,492	50,972	19,257	13,920	432,785
Depreciation	38,859	73,229	981	35,127	15,268	3,982	167,446
Charge for impairment provisions and other provisions	15,585	16,169	502	1,032	2,438	7,246	42,972
Unallocated impairment provisions and other provisions							499
Total impairment provisions and other provisions							<u>43,471</u>
31 December 2005							
Segment assets	888,256	1,376,760	284,057	467,309	166,093	545,895	3,728,370
Associated undertakings and jointly controlled entities	1,473	33,772	21,907	132,260	18,303	26,067	233,782
Unallocated assets	538,398						
Inter-segment eliminations							(161,456)
Total assets							<u>4,339,094</u>
Segment liabilities	65,493	115,063	111,592	31,796	48,969	81,680	454,593
Unallocated liabilities							1,327,225
Inter-segment eliminations							(161,458)
Total liabilities							<u>1,620,360</u>
Capital additions	89,505	150,567	16,393	22,744	16,093	13,729	309,031
Depreciation	36,947	69,192	943	4,965	8,554	4,182	124,783
Charge for impairment provisions and other provisions	8,499	9,251	9,351	—	1,958	1,373	30,432
Unallocated impairment provisions and other provisions							(155)
Total impairment provisions and other provisions							<u>30,277</u>

Segment assets consist primarily of property, plant and equipment and current assets. Unallocated assets include VAT recoverable, cash and cash equivalents, restricted cash and other non-current assets.

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Segment liabilities comprise operating liabilities, excluding items such as taxes payable, and provisions for liabilities and charges.

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

	Production of gas	Transport	Distribution	Production of crude oil and gas condensate	Refining	Other	Total
Year ended 31 December 2006							
Segment revenues							
Inter-segment sales	223,437	441,205	41,531	56,752	7,739	—	770,664
External sales	4,242	34,500	1,407,377	171,709	434,985	99,298	2,152,111
Total segment revenues	227,679	475,705	1,448,908	228,461	442,724	99,298	2,922,775
Segment expenses							
Inter-segment expenses	(5,361)	(44,217)	(650,978)	—	(70,108)	—	(770,664)
External expenses	(201,340)	(284,034)	(364,880)	(119,693)	(317,901)	(72,636)	(1,360,484)
Total segment expenses	(206,701)	(328,251)	(1,015,858)	(119,693)	(388,009)	(72,636)	(2,131,148)
Segment result	20,978	147,454	433,050	108,768	54,715	26,662	791,627
Unallocated operating expenses							(3,439)
Operating profit							788,188
Share of net income of associated undertakings and jointly controlled entities	1,488	1,048	5,915	4,777	8,910	4,225	26,363

	Production of gas	Transport	Distribution	Production of crude oil and gas condensate	Refining	Other	Total
Year ended 31 December 2005							
Segment revenues							
Inter-segment sales	196,120	332,225	35,246	27,803	5,704	—	597,098
External sales	3,504	25,050	1,033,971	52,591	202,870	65,559	1,383,545
Total segment revenues	199,624	357,275	1,069,217	80,394	208,574	65,559	1,980,643
Segment expenses							
Inter-segment expenses	(4,715)	(37,825)	(515,613)	—	(38,945)	—	(597,098)
External expenses	(181,067)	(261,998)	(233,220)	(40,438)	(141,397)	(49,402)	(907,522)
Total segment expenses	(185,782)	(299,823)	(748,833)	(40,438)	(180,342)	(49,402)	(1,504,620)
Segment result	13,842	57,452	320,384	39,956	28,232	16,157	476,023
Unallocated operating expenses							(22,039)
Operating profit							453,984
Share of net income of associated undertakings and jointly controlled entities	190	1,841	6,509	3,067	175	—	11,782

The inter-segment sales mainly consist of:

- Production of gas – sale of gas to the Distribution segment;
- Transport – rendering transportation services to the Distribution segment;
- Distribution – sale of gas to the Transport segment for own needs;

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- Production of crude oil and gas condensate – sale of oil and gas condensate to the Refining segment for further processing;
- Refining – sale of refined hydrocarbon products to other segments.

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

Included within unallocated expenses are corporate expenses, including provision for the impairment of certain financial assets.

Substantially all of the Group's operating assets are located in the Russian Federation. Sales to different geographical regions are disclosed in Note 24.

7 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Balances included within cash and cash equivalents in the consolidated balance sheet represent cash on hand and balances with banks. Included within restricted cash are balances of cash and cash equivalents totalling RR 2,877 and RR 10,954 as of 31 December 2006 and 2005, respectively, which are restricted as to withdrawal under the terms of certain borrowings. In addition, restricted cash comprises cash balances of RR 9,479 and RR 7,086 as of 31 December 2006 and 2005, respectively, in subsidiary banks, which are restricted as to withdrawal under banking regulations.

8 SHORT-TERM FINANCIAL ASSETS

Notes	31 December	
	2006	2005
Financial assets held for trading:		
33		
Corporate bonds	31,462	26,595
Corporate shares	36,444	21,929
Government and municipal bonds.....	9,388	5,875
Promissory notes.....	7,522	2,882
Other	—	126
	84,816	57,407
Available-for-sale financial assets:		
33		
Bonds	14,998	10,290
Promissory notes (net of impairment provision of RR 4,353 and RR 5,503 as of 31 December 2006 and 2005, respectively)....	6,760	11,304
	21,758	21,594
Total short-term financial assets.....	106,574	79,001

Financial assets held for trading primarily comprise marketable equity and debt securities held by NPF Gazfund and the Group's banking subsidiaries intended to generate short-term profits.

Financial assets held for trading owned by NPF Gazfund amounted to RR 46,340 and RR 28,849 as of 31 December 2006 and 2005, respectively.

Financial assets held for trading owned by the Group's banking subsidiaries amounted to RR 33,977 and RR 23,579 as of 31 December 2006 and 2005, respectively.

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9 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December	
	2006	2005
Trade receivables (net of impairment provision of RR 66,020 and RR 68,960 as of 31 December 2006 and 2005, respectively).....	254,082	181,316
Prepayments and advances (net of impairment provision of RR 1,991 and RR 3,574 as of 31 December 2006 and 2005, respectively).....	114,059	79,684
Other receivables (net of impairment provision of RR 23,951 and RR 25,399 as of 31 December 2006 and 2005, respectively).....	293,899	133,659
	<u>662,040</u>	<u>394,659</u>

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

As of 31 December 2006 and 2005 RR 199,772 and RR 141,493 of trade receivables, net of impairment provision, respectively, are denominated in foreign currencies, mainly US dollar and Euro.

As of 31 December 2006 and 2005 other receivables include RR 243,735 and RR 109,660, respectively, relating to the operations of AB Gazprombank (ZAO). These balances mainly represent deposits with other banks and loans issued to customers at commercial rates based on credit risks and maturities.

As of 31 December 2006 the average annual interest rate on banking deposits and loans ranged from 5.6% to 14.1% on balances denominated in Russian Roubles and from 2.0% to 10.6% on balances denominated in foreign currencies. As of 31 December 2005 the average annual interest rate on banking deposits and loans ranged from 7.7% to 14.8% on balances denominated in Russian Roubles and 2.3% to 12.4% on balances denominated in foreign currencies.

As of 31 December 2006 and 2005 AB Gazprombank (ZAO) had pledged deposits with banks and other financial institutions of nil and RR 1,566, respectively. These were pledged as collateral for borrowings received by OAO Gazprom.

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

Approximately 7% and 10% of accounts receivable settled during the years ended 31 December 2006 and 2005, respectively, were settled via mutual settlements or other non-cash settlements.

10 INVENTORIES

	31 December	
	2006	2005
Gas in pipelines and storage.....	89,993	76,568
Materials and supplies (net of an obsolescence provision of RR 1,697 and RR 1,712 as of 31 December 2006 and 2005, respectively).....	75,450	65,122
Goods for resale (net of an obsolescence provision of RR 155 and RR 210 as of 31 December 2006 and 2005, respectively).....	18,041	12,649
Crude oil and refined products.....	23,975	14,782
	<u>207,459</u>	<u>169,121</u>

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11 PROPERTY, PLANT AND EQUIPMENT

	Pipelines	Wells	Machinery and equipment	Buildings and roads	Production licenses	Social assets	Assets under construction	Total
As of 31.12.04								
Cost.....	1,445,701	438,585	759,735	849,804	74,606	113,392	258,786	3,940,609
Accumulated depreciation	(701,486)	(208,009)	(427,986)	(384,660)	—	(35,384)	—	(1,757,525)
Net book value at 31.12.04	744,215	230,576	331,749	465,144	74,606	78,008	258,786	2,183,084
Depreciation	(39,916)	(12,537)	(35,047)	(29,330)	(970)	(3,248)	—	(121,048)
Additions	682	73	2,769	2,655	—	223	302,629	309,031
Acquisition of subsidiaries.....	—	54,793	74,292	42,935	230,708	1,166	36,474	440,368
Transfers	72,044	36,916	77,010	58,930	—	4,058	(248,958)	—
Disposals.....	(105)	(543)	(4,437)	(3,344)	—	(4,011)	(7,019)	(19,459)
Charge for impairment provision	—	—	—	—	—	—	(965)	(965)
Net book value at 31.12.05	776,920	309,278	446,336	536,990	304,344	76,196	340,947	2,791,011
As of 31.12.05								
Cost.....	1,517,601	529,470	906,902	948,566	305,314	113,109	340,947	4,661,909
Accumulated depreciation	(740,681)	(220,192)	(460,566)	(411,576)	(970)	(36,913)	—	(1,870,898)
Net book value at 31.12.05	776,920	309,278	446,336	536,990	304,344	76,196	340,947	2,791,011
Depreciation	(41,543)	(15,411)	(42,201)	(32,693)	(29,895)	(2,677)	—	(164,420)
Additions	18	—	13,402	653	—	633	418,079	432,785
Acquisition of subsidiaries.....	122	—	6,662	3,229	—	—	10,489	20,502
Transfers	103,507	67,749	108,936	90,560	—	4,160	(374,912)	—
Disposals.....	(22)	(311)	(3,242)	(4,130)	—	(17,597)	(11,644)	(36,946)
Charge for impairment provision	—	—	—	—	—	—	(7,964)	(7,964)
Net book value at 31.12.06	839,002	361,305	529,893	594,609	274,449	60,715	374,995	3,034,968
As of 31.12.06								
Cost.....	1,621,078	595,817	1,020,655	1,024,589	305,314	90,081	374,995	5,032,529
Accumulated depreciation	(782,076)	(234,512)	(490,762)	(429,980)	(30,865)	(29,366)	—	(1,997,561)
Net book value at 31.12.06	839,002	361,305	529,893	594,609	274,449	60,715	374,995	3,034,968

At each balance sheet date management assesses whether there is any indication that the recoverable value has declined below the carrying value of the property, plant and equipment. As a result of management's assessment of the recoverable amount, assets under construction are presented net of a provision for impairment of RR 91,803 and RR 87,605 as of 31 December 2006 and 2005, respectively. Charges for impairment provision of assets under construction primarily relate to projects that have been indefinitely suspended and currently excluded from the Group's investment program. Operating assets are shown net of provision for impairment of RR 2,574 and RR 1,985 as of 31 December 2006 and 2005, respectively. Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatisation with a net book value of RR 11,573 and RR 27,406 as of 31 December 2006 and 2005, respectively.

Included in additions above is capitalized interest of RR 17,275 and RR 15,189 for the years ended 31 December 2006 and 2005, respectively. Capitalization rates of 7.0% were used representing the weighted average actual borrowing cost of the relevant borrowings for the years ended 31 December 2006 and 2005.

Included in property, plant and equipment above are fully depreciated assets which are still in service with a gross cost of RR 830,107 and RR 750,502 as of 31 December 2006 and 2005, respectively. Included in additions are non-cash additions of RR 39,907 and RR 68,626 for the years ended 31 December 2006 and 2005, respectively.

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Depreciation includes RR 1,548 and RR 1,037 for the years ended 31 December 2006 and 2005, respectively, which is related to equipment used in the construction of assets and thus capitalized rather than expensed in the consolidated statement of income. RR 20,507 and RR 25,633 of depreciation as of 31 December 2006 and 2005, respectively, is capitalized as a component of gas inventories.

The Group's gas fields are operated under licenses granted by federal and local authorities. The licenses for exploration, assessment and production of hydrocarbons for the Group's major fields expire between 2012 and 2030, however they may be extended. Management believes the existing licenses on properties expected to produce hydrocarbons will be extended past their current expiration dates at insignificant additional costs. Because of the expected extensions, the assets are being depreciated over their estimated useful lives beyond the end of the current license term.

12 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES

Notes	Carrying value as of 31 December		Group's share of the profit (loss) of the entities for the Year ended 31 December	
	2006	2005	2006	2005
	140,165	132,802	13,662	3,067
	63,426	—	538	—
32	30,865	32,348	1,174	1,684
32	16,751	7,494	2,571	(65)
	5,643	4,017	834	282
	2,823	1,764	618	301
	2,412	2,170	(77)	(382)
	15,266	15,242	24	(22)
32	6,197	4,113	3,484	2,064
30, 32	—	3,733	203	34
32, 33	3,559	3,441	22	5
32	—	3,235	(2,624)	3,060
	3,109	2,938	352	438
	2,272	1,473	974	181
	1,934	682	1,341	176
	1,756	1,701	179	200
	1,063	1,191	(126)	157
	20,901	15,438	3,214	602
	<u>318,142</u>	<u>233,782</u>	<u>26,363</u>	<u>11,782</u>
			For the Year ended 31 December	
			<u>2006</u>	<u>2005</u>
Balance at the beginning of the reporting period			233,782	81,783
Share of net income of associated undertakings and jointly controlled entities			26,363	11,782
Distribution from associated undertakings and jointly controlled entities			(12,125)	(11,787)
Translation differences.....			(265)	(925)
Net acquisitions			70,387	152,929
Balance at the end of the reporting period			<u>318,142</u>	<u>233,782</u>

In September 2006, the Group acquired 19.39% interest in OAO Novatek for USD 2,338 million payable in cash. As a result of the acquisition and considering the subsequent Board of Directors

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elections whereby the Group has appointed two of eight Board members, the Group has accounted for its investments in OAO Novatek as investments in associated undertakings.

In July 2006 the Group acquired an additional 4.72% interest in OAO Mosenergo and companies established under its restructuring for USD 350 million, increasing its interest to 29.89%.

Investments in OAO NGK Slavneft and OAO Moskovsky NPZ were acquired in 2005 on the acquisition of Gazprom Neft. OAO NGK Slavneft is engaged in the production and refining of crude oil, and sale of crude oil and refined products in domestic and foreign markets. OAO Moskovsky NPZ is engaged in the refining of crude oil and sale of refined products.

Investment in RosUkrEnergo AG with a carrying value of nil and RR 3,235 as of 31 December 2006 and 31 December 2005 is stated net of unrealized profit in the amount of RR 5,166 and RR 6,500 arising from the Group's gas sales to RosUkrEnergo AG (see Note 32).

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

	Assets	Liabilities	Revenues*	Profit (loss)*
31 December 2006				
OAO NGK Slavneft.....	367,224	86,062	173,376	27,405
OAO Novatek	84,326	15,650	11,726	2,777
SGT EuRoPol GAZ.....	57,819	29,465	11,760	2,447
OAO Mosenergo	75,958	36,844	67,243	8,596
OAO Moscow united Electricity Network Company**	47,626	17,601	25,448	2,989
OAO Moscow city Electricity Network Company**	19,580	2,242	10,069	2,140
OAO Moscow Heating Network Company**	16,982	4,648	11,524	(276)
OAO Moskovsky NPZ.....	42,931	3,615	6,884	63
WINGAS GmbH	126,930	119,023	208,639	11,027
OAO Stroytransgaz	46,285	27,214	45,923	669
RosUkrEnergo AG	115,256	94,036	196,641	21,644
AO Latvijas Gaze.....	16,515	4,777	8,978	1,034
AO Lietuvos Dujos	23,064	4,478	7,729	587
BSPC	62,094	58,336	6,949	(501)
ZAO Nortgaz	6,277	1,825	5,552	1,980

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	<u>Assets</u>	<u>Liabilities</u>	<u>Revenues*</u>	<u>Profit (loss)*</u>
31 December 2005				
OA0 NGK Slavneft.....	336,074	69,679	37,326	6,181
SGT EuRoPol GAZ.....	58,941	33,926	13,183	3,508
OA0 Mosenergo	45,903	19,332	70,717	(259)
OA0 Moscow united Electricity Network Company**.....	22,939	5,202	10,187	1,128
OA0 Moscow city Electricity Network Company**	11,147	1,411	5,800	1,204
OA0 Moscow Heating Network Company**	11,663	3,138	5,519	(1,529)
OA0 Moskovsky NPZ.....	42,675	3,417	1,365	(56)
WINGAS GmbH	98,583	90,730	130,087	4,613
ZAO ArmRosgazprom	10,983	2,688	3,468	65
OA0 Stroytransgaz	49,978	24,901	23,380	319
RosUkrEnergo AG	57,343	35,598	121,092	21,368
AO Latvijas Gaze.....	14,566	3,381	6,893	1,222
AO Lietuvos Dujos	22,086	3,888	6,282	478
BSPC	68,177	63,545	6,704	(1,483)
ZAO Nortgaz	5,475	2,588	4,667	355

* Revenues and profit (loss) of the Group's associated undertakings and jointly controlled entities are disclosed in total for the year 2006, except for OA0 Novatek, and for the year 2005, except for OA0 NGK Slavneft, OA0 Moskovsky NPZ, OA0 Moscow united Electricity Network Company, OA0 Moscow city Electricity Network Company and OA0 Moscow Heating Network Company for which revenues and profit (loss) are disclosed from the date of acquisition.

** OA0 Mosenergo, OA0 Moscow united Electricity Network Company, OA0 Moscow city Electricity Network Company and OA0 Moscow Heating Network Company were established under the restructuring of Mosenergo in 2005.

The estimated fair values of investments in associated undertakings for which there are published price quotations were as follows:

	<u>31 December</u>	
	<u>2006</u>	<u>2005</u>
OA0 Novatek.....	98,455	—
OA0 Mosenergo (stand alone)	44,491	29,123
AO Latvijas Gaze	6,984	7,310
AO Lietuvos Dujos.....	6,658	6,741

Principal associated undertakings and jointly controlled entities

<u>Entities</u>	<u>Country</u>	<u>Nature of operations</u>	<u>% of ordinary shares held as of 31 December*</u>	
			<u>2006</u>	<u>2005</u>
ZAO Achimgaz	Russia	Exploration of oil, gas and other hydrocarbons	50	50
Blue Stream Pipeline company B.V. (BSPC)	Netherlands	Construction, gas transportation	50	50
Bosphorus Gaz Corporation A.S.	Turkey	Gas distribution	40	40
Centrex Beteiligungs GmbH	Germany	Gas distribution	38	38
SGT EuRoPol GAZ	Poland	Transportation and gas distribution	48	48
Gaz Project Development Central Asia AG	Germany	Gas distribution	50	50
AO Gazum	Finland	Gas distribution	25	25

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Entities	Country	Nature of operations	% of ordinary shares held as of 31 December*	
			2006	2005
TOO KazRosGaz	Kazakhstan	Transportation and gas distribution	50	50
AO Latvijas Gaze	Latvia	Transportation and gas distribution	34	34
AO Lietuvos Dujos	Lithuania	Transportation and gas distribution	37	37
AO Moldovagaz	Moldova	Transportation and gas distribution	50	50
OA0 Moskovsky NPZ	Russia	Production and distribution of refined products	39	39
OA0 Mosenergo	Russia	Electrical energy and heat production	30	25
OA0 Moscow united Electricity Network Company	Russia	Transmission and distribution of electrical energy	28	25
OA0 Moscow city Electricity Network Company	Russia	Production, transmission and distribution of electrical energy	28	25
OA0 Moscow Heating Network Company	Russia	Transmission of heat energy	28	25
ZAO Nortgaz	Russia	Exploration and production of gas	51	51
OA0 Novatek	Russia	Production and distribution of gas	19	—
AO Overgaz Inc.	Bulgaria	Gas distribution	50	50
ZAO Panrusgaz	Hungary	Gas distribution	40	40
AO Prometheus Gas	Greece	Foreign trade activity	50	50
RosUkrEnergo AG	Switzerland	Gas distribution	50	50
OA0 NGK Slavneft	Russia	Oil exploration, production, refinery and distribution of oil and refined products	50	50
OA0 Sogaz	Russia	Insurance	24	24
ZAO Stella Vitae	Lithuania	Transportation and gas distribution	30	30
OA0 Stroytransgaz	Russia	Construction	18	26
AO Turusgaz	Turkey	Gas distribution	45	45
Vemex s.r.o.	Czech Republic	Gas distribution	33	33
WIEE Romania SRL	Romania	Gas distribution	50	50
WINGAS Storage UK Ltd.	United Kingdom	Underground gas storage reconstruction	33	33
Wintershall Gas GmbH (WINGAS GmbH)	Germany	Transportation and gas distribution	35	35
Wintershall Erdgas Handelshaus GmbH & Co.KG	Germany	Gas distribution	50	50
Wintershall Erdgas Handelshaus Zug AG	Switzerland	Gas distribution	50	50
Wirom Gas S.A.	Romania	Gas distribution	26	26

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13 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December	
	2006	2005
Long-term accounts receivable and prepayments (net of impairment provision of RR 15,085 and RR 14,857 as of 31 December 2006 and 2005, respectively)	191,816	131,869
Advances for assets under construction (net of impairment provision of RR 85 and nil as of 31 December 2006 and 2005, respectively)	59,307	47,318
	<u>251,123</u>	<u>179,187</u>

Long-term accounts receivable and prepayments include amounts due from South Pars of RR 3,082 and RR 7,552, net of impairment provision of RR nil and RR 117 as of 31 December 2006 and 2005, respectively. South Pars is a contractual arrangement with Total South Pars and Parsi International Ltd. established in 1997 to provide services to the National Iranian Oil Company in relation to the development of the South Pars gas and condensate field in Iran.

As of 31 December 2006 and 2005, long-term accounts receivable and prepayments include RR 99,380 and RR 71,271, respectively, relating to operations of AB Gazprombank (ZAO). These balances mainly represent long-term loans issued to customers at commercial rates based on credit risks and maturities.

The estimated fair value of long-term accounts receivable, excluding prepayments, is RR 186,605 and RR 129,879 as of 31 December 2006 and 2005, respectively.

14 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

	31 December	
	2006	2005
Equity instruments (RAO UES of Russia)	128,599	54,745
Equity instruments (net of provision for impairment of RR 10,113 and RR 11,456 as of 31 December 2006 and 2005, respectively)	16,482	8,655
Debt instruments (net of provision for impairment of RR 140 and 20 as of 31 December 2006 and 2005, respectively).....	5,793	4,447
	<u>150,874</u>	<u>67,847</u>

The Group held a 10.49% interest in the share capital of RAO UES of Russia as of 31 December 2006 and 2005.

	For the Year ended 31 December	
	2006	2005
Movements in long-term available-for-sale assets		
Balance at the beginning of the reporting period	67,847	54,745
Net effect of adjustments to fair value	73,854	13,292
Available-for-sale assets purchased	9,218	4,658
Available-for-sale assets disposed	(1,916)	(8,851)
Provision accrued on available-for-sale assets.....	(93)	(1,239)
Provision reversed due to disposal of long-term available-for-sale assets (sold/ written-off)	1,964	5,242
Balance at the beginning of the reporting period	<u>150,874</u>	<u>67,847</u>

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15 OTHER NON-CURRENT ASSETS

Included within other non-current assets is VAT recoverable related to long-term assets totalling RR 19,530 and RR 24,179 as of 31 December 2006 and 2005, respectively.

16 ACCOUNTS PAYABLE AND ACCRUED CHARGES

	31 December	
	2006	2005
Trade payables.....	117,332	72,103
Accounts payable for acquisition of property, plant and equipment.....	59,824	47,226
Advances received.....	7,240	5,081
Accruals and deferred income	2,640	2,330
Liabilities of the Group's banking subsidiaries.....	151,842	53,078
Other payables.....	59,248	40,165
	<u>398,126</u>	<u>219,983</u>

Payables of the Group's banking subsidiaries represent amounts due to the banks' customers with terms at commercial rates ranging from 0.0% to 2.5% per annum and from 0.0% to 1.0% per annum as of 31 December 2006 and 2005 respectively.

For the years ended 31 December 2006 and 2005 approximately 13% and 15% of the Group's settlements of accounts payable and accrued charges were made via non-cash settlements.

RR 42,662 and RR 19,163 of trade payables are denominated in foreign currency, mainly the US dollar and Euro, as of 31 December 2006 and 2005, respectively. Book values of accounts payable approximate their fair value.

17 OTHER TAXES PAYABLE

	31 December	
	2006	2005
VAT	21,311	59,883
Natural resources production tax.....	13,388	12,742
Excise tax.....	3,361	7,337
Property tax.....	4,349	3,194
Tax penalties and interest.....	2,429	3,141
Other taxes.....	5,407	4,383
	<u>50,245</u>	<u>90,680</u>
Less: long-term portion of restructured tax liabilities.....	(822)	(1,128)
	<u>49,423</u>	<u>89,552</u>

As of 31 December 2006 and 2005 included within VAT payable is RR 16,163 and RR 50,287, respectively, included within excise tax payable is RR 1,565 and RR 2,389, respectively, that are only payable to budget when the underlying receivable is recovered, written off or expired due to limitation period.

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

	31 December	
	2006	2005
Short-term borrowings:		
RR denominated borrowings.....	101,314	50,759
Foreign currency denominated borrowings	51,737	47,319
	153,051	98,078
Current portion of long-term borrowings (see Note 19).....	137,654	82,881
	290,705	180,959

Short-term RR denominated borrowings had average interest rates ranging from 7.4% to 13.0% and from 8.0% to 13.0% for the years ended 31 December 2006 and 2005, respectively. Short-term foreign currency denominated borrowings had average interest rates ranging from 2.4% to 8.9% and from 2.4% to 7.8% for the years ended 31 December 2006 and 2005, respectively.

As of 31 December 2006 and 2005, respectively, short-term borrowings include RR 133,493 and RR 67,752 of short-term borrowings of AB Gazprombank (ZAO).

The Group's short-term promissory notes payable had average interest rates ranging from 6.8% to 9.0% and from 5.5% to 10.8% for the years ended 31 December 2006 and 2005, respectively.

Fair values approximate the carrying value of these liabilities.

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19 LONG-TERM BORROWINGS AND PROMISSORY NOTES

	Currency	Final Maturity	31 December	
			2006	2005
Long-term borrowings payable to:				
Morgan Stanley AG	US dollar	2013	47,558	51,921
Loan participation notes issued in May 2005	Euro	2015	35,886	35,357
Loan participation notes issued in November 2006...	US dollar	2016	35,786	—
ABN AMRO*	US dollar	2010	35,765	—
Loan participation notes issued in September 2003	Euro	2010	35,408	34,847
Loan participation notes issued in December 2005	Euro	2012	34,793	34,280
Structured export notes issued in July 2004	US dollar	2020	33,901	37,058
Dresdner Bank AG*	US dollar	2010	33,143	36,194
Dresdner Bank AG*	US dollar	2008	33,135	36,186
Loan participation notes issued in April 2004	US dollar	2034	32,074	34,880
Deutsche Bank AG	US dollar	2014	31,776	34,732
Loan participation notes issued in October 2006.....	Euro	2014	27,317	—
Eurobonds issued by AB Gazprombank (ZAO) in September 2005	US dollar	2015	26,557	29,013
Eurobonds issued by AB Gazprombank (ZAO) in October 2003	US dollar	2008	19,927	21,747
Salomon Brothers AG	US dollar	2009	18,798	20,548
Loan participation notes issued in November 2006...	Euro	2017	17,443	—
Citibank International PLC	US dollar	2009	16,646	—
Salomon Brothers AG	US dollar	2009	15,921	16,672
Credit Swiss First Boston	Euro	2009	13,969	13,763
Depfa Bank*	US dollar	2008	13,502	14,760
Salomon Brothers AG	US dollar	2007	13,386	14,632
Loan from a syndicate of foreign banks	US dollar	2008	13,179	18,796
Salomon Brothers AG	US dollar	2007	11,876	12,517
Russian bonds issued in February 2004	Rouble	2007	10,359	10,338
OOO Aragon	Euro	2010	9,541	—
Deutsche Bank AG	US dollar	2011	9,358	10,214
Eurobonds issued by AB Gazprombank (ZAO) in January 2004	US dollar	2008	7,971	8,699
Credit Swiss First Boston	Euro	2007	8,720	8,577
Liberty Hamshir Corporation	Rouble	2009	7,600	—
Gazstream SA	US dollar	2012	7,248	11,775
Gazstream SA	US dollar	2010	7,050	8,358
Credit Swiss First Boston	Euro	2008	7,009	—
Credit Swiss First Boston	Euro	2008	6,996	6,893
ABN AMRO*	US dollar	2009	6,609	—
Mannesmann (Deutsche Bank AG)*	Euro	2008	5,814	8,591
ABN AMRO*	US dollar	2009	5,355	—
J.P. Morgan Chase bank	US dollar	2011	5,302	5,792
Credit Swiss First Boston	US dollar	2009	5,293	5,783
BNP Paribas SA	US dollar	2008	5,271	5,761
Russian bonds issued in August 2005	Rouble	2009	5,134	5,108
Russian bonds issued in February 2005	Rouble	2010	5,134	4,884
Russian bonds issued in October 2004	Rouble	2007	5,084	5,070
Russian bonds issued in November 2006	Rouble	2011	5,057	—
Russian bonds issued in November 2006	Rouble	2009	5,040	—
Deutsche Bank AG	US dollar	2009	2,988	4,562
International banking consortium	Euro	2007	1,735	2,051

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	Currency	Final Maturity	31 December	
			2006	2005
Dresdner Bank AG*	US dollar	2007	—	74,349
ABN AMRO*	US dollar	2010	—	25,666
Calyon bank	US dollar	2010	—	23,977
ABN AMRO*	US dollar	2008	—	20,249
ABN AMRO*	US dollar	2010	—	7,853
Raiffeisen Centralbank*	US dollar	2008	—	5,184
ZAO KB Citibank*	US dollar	2008	—	4,363
German banking consortium	Euro	2007	—	3,594
BNP Paribas SA*	US dollar	2007	—	3,187
OAQ Vneshtorgbank	US dollar	2008	—	2,894
Deutsche Bank AG	US dollar	2006	—	2,319
Other long-term borrowings	Various	Various	62,583	40,736
Total long-term borrowings			805,997	824,730
Less: current portion of long-term borrowings			(137,654)	(82,881)
			<u>668,343</u>	<u>741,849</u>

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

	31 December	
	2006	2005
RR denominated borrowings (including current portion of RR 18,447 and RR 1,626 as of 31 December 2006 and 2005, respectively)	60,753	36,959
Foreign currency denominated borrowings (including current portion of RR 119,207 and RR 81,255 as of 31 December 2006 and 2005, respectively)	745,244	787,771
	<u>805,997</u>	<u>824,730</u>

	31 December	
	2006	2005
Due for repayment:		
Between one and two years	111,280	153,165
Between two and five years	242,230	360,505
After five years	314,833	228,179
	<u>668,343</u>	<u>741,849</u>

Long-term borrowings include fixed rate loans with a carrying value of RR 563,142 and RR 472,979 and fair value of RR 590,623 and RR 510,608 as of 31 December 2006 and 2005, respectively. All other long-term borrowings generally have variable interest rates linked to LIBOR, and the carrying amounts approximate fair value.

As of 31 December 2006 and 2005, long-term borrowings of AB Gazprombank (ZAO) are equal to RR 84,628 and RR 100,339, respectively.

In 2006, the Group had three issues of Loan participation notes in the amount of Euro 780 million due 2014 at an interest rate of 5.03%, of Euro 500 million due 2017 at an interest rate of 5.136% and of USD 1,350 million due 2016 at an interest rate of 6.212%.

In May 2006, the Group received a US dollar denominated non-secured syndicated loan from ABN AMRO in the amount of RR 41,322 (USD 1,526 million) due 2010 at an interest rate of Libor + 0.55%. The loan was obtained to refinance obligations to ABN AMRO and Calyon bank.

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As of 31 December 2006 and 2005, the Group did not have formal hedging arrangements to mitigate its foreign exchange risk or interest rate risk.

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

	31 December	
	2006	2005
Fixed rate RR denominated long-term borrowings	7.17%	8.09%
Fixed rate foreign currency denominated long-term borrowings.....	6.85%	7.28%
Variable rate foreign currency denominated long-term borrowings	6.60%	5.27%

As of 31 December 2006 and 2005 long-term borrowings of RR 33,901 and RR 98,886, respectively, inclusive of current portion of long-term borrowings, are secured by revenues from export supplies of gas to Western Europe.

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

The Group's long-term promissory notes payable had average interest rates ranging from 8.0% to 8.1% and from 6.6% to 10.0% for the years ended 31 December 2006 and 2005, respectively.

20 PROFIT TAX

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

	Year ended 31 December	
	2006	2005
Profit before profit tax and minority interest	856,065	450,115
Theoretical tax charge at a statutory rate (24% for the years ended 31 December 2006 and 2005, respectively).....	(205,456)	(108,028)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	(22,319)	(33,416)
Other non-taxable income	8,171	7,260
Profit tax expense.....	<u>(219,604)</u>	<u>(134,184)</u>

Profit tax expense in the consolidated statement of income is stated net of RR 3,077 and RR 24,724 of tax attributable to gains arising on treasury shares transactions for the years ended 31 December 2006 and 2005, respectively.

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24%.

	31 December 2006	Differences recognition and reversals	31 December 2005	Differences recognition and reversals	31 December 2004
Tax effects of taxable temporary differences:					
Property, plant and equipment	(241,739)	(6,620)	(235,119)	(99,949)	(135,170)
Financial assets.....	(38,112)	(17,370)	(20,742)	(19,020)	(1,722)
Inventories	(189)	2,778	(2,967)	14	(2,981)
	<u>(280,040)</u>	<u>(21,212)</u>	<u>(258,828)</u>	<u>(118,955)</u>	<u>(139,873)</u>

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	31 December 2006	Differences recognition and reversals	31 December 2005	Differences recognition and reversals	31 December 2004
Tax effects of deductible temporary differences:					
Tax losses carry forward	1,706	(1,123)	2,829	2,055	774
Other deductible temporary differences	2,826	(1,305)	4,131	2,094	2,037
Total net deferred tax liabilities	<u>(275,508)</u>	<u>(23,640)</u>	<u>(251,868)</u>	<u>(114,806)</u>	<u>(137,062)</u>

Taxable temporary differences in relation to financial assets include difference on fair value adjustment on RAO UES of Ruassia shares in the amount of RR 17,725 and RR 4,789 for the years, ended 31 December 2006 and 2005, respectively. No current profit tax was paid on this revaluation.

Taxable temporary differences recognized in 2005 include the effect of acquisition of OAO Gazprom Neft in October 2005. The differences resulting from the acquisition of OAO Gazprom Neft in relation to property, plant and equipment amounted to RR 78,145 and in respect of financial assets amounted to RR 17,061.

Deferred tax assets and liabilities arise mainly from differences in the taxable and financial reporting bases of property, plant and equipment. These differences for property, plant and equipment are historically due to the fact that a significant proportion of the tax base was determined upon independent appraisals, the most recent of which was recognised for profit tax purposes as of 1 January 2001, while the financial reporting base is historical cost restated for changes in the general purchasing power of the RR to 31 December 2002. From 1 January 2002, any revaluation of property, plant and equipment recorded in the statutory accounting records is not recorded in the tax accounting records and therefore has no impact on temporary differences.

In accordance with the tax legislation of the Russian Federation tax losses and current tax assets of the different companies in the Group may not be set off against taxable profits and current tax liabilities of other group companies. In addition, the tax base is separately determined for main activities, income from operations with securities and service activities. Tax losses arising from one type of activity can not be offset with taxable profit of other types of activity. Also, a deferred tax asset of one company (type of activity) of the Group can not be offset against a deferred tax liability of another company (type of activity). As of 31 December 2006 and 2005 deferred tax assets in the amount of RR 14,053 and RR 10,733, respectively, have not been recorded for the deductible temporary differences for which it is not probable that sufficient taxable profit of the Group subsidiaries will be available to allow the benefit of that deferred tax asset to be utilised.

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 313,678 and RR 264,629 as of 31 December 2006 and 2005, respectively. A deferred tax liability on these temporary differences was not recognized because management controls the timing of the reversal of the temporary differences and believes that they will not reverse in the foreseeable future.

21 FINANCIAL INSTRUMENTS

Derivative financial instruments

As of 31 December 2006 the Group had outstanding commodity contracts and contracts to purchase and sell securities, and foreign currencies at the market price at the date of maturity. The Group expects to settle these contracts in the normal course of business. These instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions.

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

	31 December			
	2006		2005	
	Notional principal equivalents	Fair value	Notional principal equivalents	Fair value
Foreign exchange option contracts				
Call options held – foreign	4,871	499	7,627	174
Put options held – foreign	—	—	2,556	17
Call options written – foreign	(1,021)	(24)	(570)	(8)
Put options written – foreign	(983)	—	(560)	(1)
	<u>2,867</u>	<u>475</u>	<u>9,053</u>	<u>182</u>
Foreign exchange forward contracts				
Assets foreign	77,494	2,139	15,502	183
Assets domestic.....	41,616	593	27,315	36
Liabilities foreign.....	(47,603)	(432)	(26,243)	(397)
Liabilities domestic.....	(44,936)	(353)	(45,124)	(27)
	<u>26,571</u>	<u>1,947</u>	<u>(28,550)</u>	<u>(205)</u>
Bullion forward contracts				
Assets domestic.....	135	2	—	—
Liabilities foreign.....	(130)	(7)	—	—
	<u>5</u>	<u>(5)</u>	<u>—</u>	<u>—</u>
Securities option contracts				
Call options written – foreign	(22,310)	(2,851)	—	—
Call options held – foreign.....	5,867	332	—	—
Put options written – domestic.....	—	—	(787)	(1,111)
Put options held – domestic.....	—	—	764	—
	<u>(16,443)</u>	<u>(2,519)</u>	<u>(23)</u>	<u>(1,111)</u>
Securities forward contracts				
Assets – foreign	—	—	1,693	4
Assets – domestic.....	917	1	20	—
Liabilities – foreign.....	—	—	(3,216)	(7)
Liabilities – domestic.....	(649)	(4)	—	—
	<u>268</u>	<u>(3)</u>	<u>(1,503)</u>	<u>(3)</u>
Commodity contracts				
Commodity contracts assets.....	89,273	18,776	42,458	7,456
Commodity contracts liabilities.....	(93,504)	(17,261)	(40,981)	(6,515)
	<u>(4,231)</u>	<u>1,515</u>	<u>1,477</u>	<u>941</u>

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

The Group enters into contracts to receive and deliver commodities in accordance with its expected purchase, sale or usage requirements. Such contracts are not considered derivatives and are not included in the table above.

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22 PROVISIONS FOR LIABILITIES AND CHARGES

Notes	31 December	
	2007	2006
Provision for pension obligations	84,393	57,733
33 Provision for environmental liabilities	31,670	25,070
Other	3,515	991
	<u>119,578</u>	<u>83,794</u>

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

	31 December	
	2006	2005
Present value of obligations (unfunded)	237,481	190,435
Unrecognised actuarial losses	(126,577)	(103,301)
Unrecognised past service cost	(26,511)	(29,401)
Net liability	<u>84,393</u>	<u>57,733</u>

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

	Year ended 31 December	
	2006	2005
Current service cost	7,945	5,362
Interest cost.....	12,634	9,120
Past service cost amortisation.....	2,891	82
Net actuarial losses	5,617	6,939
Net expense included in staff costs in the statement of income (see Note 25)	<u>29,087</u>	<u>21,503</u>

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

	Year ended 31 December	
	2006	2005
Net liability at the beginning of the reporting period	57,733	38,046
Net expense recognised in the consolidated statement of income.....	29,087	21,503
Benefits paid	(2,427)	(1,816)
Net liability at the end of the reporting period.....	<u>84,393</u>	<u>57,733</u>

Principal actuarial assumptions used (expressed as weighted average):

	31 December	
	2006	2005
Discount rate (nominal).....	6.7%	6.9%
Future salary increases (nominal).....	7.6%	7.0%
Employees average remaining working life (years)	15	15

The assumptions relating to longevity at normal pension age were 17 years for a 60 years old man and 28 years for a 55 year old woman in 2006 and 2005.

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23 EQUITY

Share capital

Share capital authorised, issued and paid in totals RR 325,194 as of 31 December 2006 and 2005 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 roubles.

Dividends

In 2006, OAO Gazprom accrued and paid dividends in the nominal amount of 1.50 roubles per share for the year ended 31 December 2005. In 2005, OAO Gazprom accrued and paid dividends in the nominal amount of 1.19 roubles per share for the year ended 31 December 2004.

In 2007, the Board of Directors of OAO Gazprom recommended payment of a final dividend for the year ended 31 December 2006 in the amount of 2.54 roubles per share. Because this decision was reached after the balance sheet date and is submitted for approval at the General Meeting of the Shareholders, the final dividend proposed in respect of 2006 has not been recognised in the consolidated balance sheet. The final dividend of RR 60,131 (including dividend tax withheld at source in the amount of RR 6,290), if approved, will be paid prior to 31 December 2007.

Treasury shares

As of 31 December 2006 and 2005, subsidiaries of OAO Gazprom held 749 million and 848 million of the ordinary shares of OAO Gazprom, respectively. Shares of the Group held by the subsidiaries represent 3.4% and 3.6% of OAO Gazprom shares as of 31 December 2006 and 2005, respectively. The Group management controls the voting rights of these shares.

In addition, treasury shares as of 31 December 2006 include 46 million of Gazprom shares recognized under a put option written by the Group in June 2006 with a strike price of USD 13.27 per share. The option expires in November 2007. Financial liabilities recognized under this put option amounted to RR 15,470 as of 31 December 2006 and are included in "Other non-current liabilities".

Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of the Rouble as of 31 December 2002, when Russian economy ceased to be hyperinflationary under IAS 29. Also, retained earnings and other reserves include translation losses arising on the translation of the net assets of foreign subsidiaries, associated undertakings and jointly controlled entities in the amount of RR 20,496 and RR 20,732 as of 31 December 2006 and 2005, respectively.

Retained earnings and other reserves include a statutory fund for social assets, created in accordance with Russian legislation at the time of privatisation. From time to time, the Group negotiates to return certain of these assets to governmental authorities, and this process may continue. Social assets with a net book value of RR 14,562 and RR 2,162 have been transferred to governmental authorities during the years ended 31 December 2006 and 2005, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

The basis of distribution is defined by legislation as the current year net profit, as calculated in accordance with RAR. For 2006, the statutory profit of the parent company was RR 343,680. 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.

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24 SALES

	Year ended 31 December	
	2006	2005
Gas sales (including excise tax and custom duties, net of VAT) to customers in:		
Russian Federation	357,274	311,336
Former Soviet Union (excluding Russian Federation)	243,133	131,393
Europe.....	1,149,582	850,017
Gross sales of gas	1,749,989	1,292,746
Excise tax	(2,637)	(4,459)
Customs duties.....	(335,733)	(250,812)
Net sales of gas.....	1,411,619	1,037,475
Sales of refined products to customers in:		
Russian Federation	233,044	123,565
Former Soviet Union (excluding Russian Federation)	29,776	14,414
Europe.....	172,165	64,891
Total sales of refined products	434,985	202,870
Sales of crude oil and gas condensate to customers in:		
Russian Federation	26,737	17,376
Former Soviet Union (excluding Russian Federation)	19,213	4,793
Europe.....	125,759	30,422
Sales of crude oil and gas condensate	171,709	52,591
Gas transportation sales	34,500	25,050
Other revenues	99,298	65,559
	<u>2,152,111</u>	<u>1,383,545</u>

Other revenues include primarily sales of media assets, revenues from construction works and other services.

25 OPERATING EXPENSES

	Year ended 31 December	
	2006	2005
Purchased oil and gas	280,062	87,723
Staff costs.....	199,588	168,076
Taxes other than on income	187,245	113,966
Depreciation.....	167,446	124,783
Transit of gas, oil and refined products	156,489	110,863
Repairs and maintenance.....	82,305	55,266
Materials	81,810	73,779
Cost of goods for resale, including refined products.....	51,041	24,540
Electricity and heating expenses	45,062	33,031
Social expenses.....	18,563	15,674
Impairment provisions.....	14,384	8,774
Research and development	13,123	6,544
Equipment maintenance	12,885	11,564
Insurance expenses.....	10,448	11,800
Rental expenses.....	8,890	9,727
Transportation services.....	6,130	9,344
Other operating expenses.....	28,452	64,107
	<u>1,363,923</u>	<u>929,561</u>

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Staff costs include RR 29,087 and RR 21,503 of expenses associated with pension obligations (see Note 22) for the years ended 31 December 2006 and 2005, respectively.

Taxes other than on income consist of:

	Year ended 31 December	
	2006	2005
Natural resources production tax.....	158,480	87,229
Property tax.....	21,825	15,269
Other taxes.....	6,940	11,468
	<u>187,245</u>	<u>113,966</u>

26 FINANCE INCOME AND EXPENSES

	Year ended 31 December	
	2006	2005
Exchange gains.....	60,497	27,530
Interest income.....	36,460	25,202
Gains on and extinguishment of restructured liabilities.....	966	1,158
Total finance income.....	<u>97,923</u>	<u>53,890</u>

	Year ended 31 December	
	2006	2005
Exchange losses.....	21,449	33,724
Interest expense.....	44,082	36,202
Total finance expenses.....	<u>65,531</u>	<u>69,926</u>

27 RECONCILIATION OF PROFIT, DISCLOSED IN CONSOLIDATED STATEMENT OF INCOME, PREPARED IN ACCORDANCE WITH RUSSIAN ACCOUNTING RULES (RAR) TO PROFIT DISCLOSED IN IFRS STATEMENT OF INCOME

	Year ended 31 December	
	2006	2005
RAR net profit for the period per consolidated statutory accounts.....	578,688	427,048
Effects of IFRS adjustments:		
Effect of sales of treasury shares of OAO Rosneftegaz.....	—	(144,780)
Reclassification of revaluation of RAO UES of Russia (including deferred tax effect of RR 17,725 and RR 4,789 for the years, ended December 31, 2006 and 2005, respectively).....	(56,129)	(12,397)
Gain of OAO Novatek shares revaluation.....	(34,984)	—
Differences in depreciation.....	72,167	59,964
Reversal of Goodwill depreciation.....	25,069	7,209
Loan interest capitalized.....	17,275	15,189
Impairment provisions and other provisions.....	16,431	(16,456)
Fair value adjustment for currency options.....	1,459	(1,577)
Write-off of research and development expenses capitalized for RAR purposes.....	(3,438)	(4,222)
Fair value adjustment on commodity contracts.....	4,169	886
Other effects.....	15,754	(14,933)
IFRS profit for the period.....	<u>636,461</u>	<u>315,931</u>

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28 EARNINGS PER SHARE

Earnings per share have been calculated by dividing the profit, attributable to equity shareholders of OAO Gazprom by the weighted average number of shares outstanding during the year, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares.

There were 22.8 billion and 21.4 billion weighted average shares outstanding for the years ended 31 December 2006 and 2005, respectively.

29 NET CASH PROVIDED BY OPERATING ACTIVITIES

	Year ended 31 December	
	2006	2005
Profit before profit tax.....	856,065	450,115
Adjustments to profit before profit tax		
Depreciation.....	167,446	124,783
Charge for impairment provisions and other provisions	43,471	27,699
Net unrealised foreign exchange (gains) losses.....	(39,048)	6,194
Interest expense on borrowings and promissory notes.....	43,771	36,202
Gains on and extinguishment of restructured liabilities.....	(966)	(1,158)
Losses on disposal of property, plant and equipment.....	11,744	2,746
Interest income	(36,460)	(25,202)
Gain on disposal of available-for-sale financial assets	(8,811)	(385)
Share of net income from associated undertakings and jointly controlled entities	(26,363)	(11,782)
Total effect of adjustments	154,784	159,097
Increase in long-term assets.....	(39,758)	(20,021)
Decrease in long-term liabilities.....	(501)	(3,374)
Non-cash additions and disposals of property, plant and equipment and other long-term financial assets	(55,371)	(73,670)
	915,219	512,147
Changes in working capital		
Increase in accounts receivable and prepayments	(257,763)	(59,288)
Increase in inventories	(43,600)	(26,647)
Increase in other current assets	(7,205)	(42,422)
Increase in accounts payable and accrued charges, excluding interest, dividends and capital construction.....	128,514	27,888
Increase in taxes payable (other than profit tax)	11,812	43,171
Decrease (increase) in available-for-sale financial assets and financial assets held for trading	8,290	(28,151)
Total effect of working capital changes	(159,952)	(85,449)
Profit tax paid.....	(211,179)	(154,081)
Net cash provided by operating activities.....	544,088	272,617

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Total taxes paid in cash for the years 2006 and 2005:

	Year ended 31 December	
	2006	2005
Customs duties.....	473,088	289,196
Profit tax.....	211,179	154,081
Natural resources production tax.....	157,834	90,357
VAT.....	74,398	67,655
Excise.....	35,948	12,502
Unified social tax.....	27,846	22,725
Personal income tax.....	22,155	18,297
Property tax.....	20,670	13,344
Other.....	4,024	6,043
Total taxes paid.....	1,027,142	674,200

30 SUBSIDIARY UNDERTAKINGS

Subsidiary undertaking	Location	% of share capital as of 31 December	
		2006	2005
ZAO Archinskoe*	Russia	100	100
ZAO ArmRosgazprom	Armenia	53	45
Arosgas Holding AG**	Austria	100	100
ООО Astrakhangazprom	Russia	100	100
ООО Aura-Media	Russia	100	100
ОАО Azot (Kemerovo)	Russia	75	75
ООО Bashtransgaz	Russia	100	100
ОАО Belozerniy GPK	Russia	100	100
ООО Burgaz	Russia	100	100
ООО Elion	Russia	100	100
ООО Faktoring-Finance	Russia	90	90
ОАО Gazavtomatika***	Russia	49	49
ОАО Gazenergoservice	Russia	51	51
ООО Gazflot	Russia	100	100
НПФ Gazfund	Russia	100	100
ООО Gazkomplektimpex	Russia	100	100
ООО Gaznadzor	Russia	100	100
ООО GazNeftoTrade	Russia	100	100
ООО Gazobezопасnost	Russia	100	100
ООО Gazoenergeticheskaya Companiya	Russia	100	100
ООО Gazpromavia	Russia	100	100
AB Gazprombank (ZAO)	Russia	100	100
ООО Gazpromenergo	Russia	100	100
ООО Gazprom export	Russia	100	100
Gazprom Finance BV	Netherlands	100	100
GAZPROM Germania GmbH	Germany	100	100
ОАО Gazprom Neft	Russia	76	76
ООО Gazprominvestholding	Russia	100	100
Gazprom Marketing and Trading Ltd.	United Kingdom	100	100
ОАО Gazprom-Media	Russia	100	100
ООО GazpromPurInvest	Russia	100	99
ОАО Gazpromregiongaz	Russia	100	100
ZAO Gazpromstroyengineering	Russia	100	100

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<u>Subsidiary undertaking</u>	<u>Location</u>	<u>% of share capital as of 31 December</u>	
		<u>2006</u>	<u>2005</u>
ООО Gazpromtrans	Russia	100	100
ОАО Gazpromtrubinvest	Russia	99	99
ООО Gazsvyaz	Russia	100	100
ООО Gaztechleasing.....	Russia	100	100
ООО Gaztorgpromstroy	Russia	100	100
ЗАО Gerosgaz.....	Russia	51	51
ОАО Giprospetsgaz.....	Russia	60	60
ОАО Gubkinskiy GPK	Russia	100	100
ООО Informgaz.....	Russia	100	100
ООО IRTs Gazprom.....	Russia	100	100
ООО Kaspygazprom	Russia	100	100
ОАО Kauchuk.....	Russia	100	100
ЗАО Kaunasskaya power station	Lithuania	99	99
ООО Kavkaztransgaz.....	Russia	100	100
ОАО Khimprom.....	Russia	100	100
ООО Kommerts Investments**.....	Russia	100	100
ОАО Krasnodargazstroy	Russia	51	51
ООО Krasnoyarsgazdobycha	Russia	100	100
ОАО Krasnoyarskgazprom	Russia	75	75
ОАО Krasnoyarskiy ZSK	Russia	97	97
ООО Kubangazprom	Russia	100	100
ЗАО Kuzbassnefteproduct*	Russia	100	100
Leadville Investments Ltd.....	Cyprus	100	100
ОАО Lengazspecstroy	Russia	63	63
ООО Lentransgaz	Russia	100	100
ОАО Meretoyakhaneftegaz*	Russia	67	67
ООО Mezhregiongaz	Russia	100	100
ООО Mostransgaz	Russia	100	100
ООО Nadymgazprom.....	Russia	100	100
ООО Nadymstroygazdobycha.....	Russia	100	100
ООО Neftekhim-Leasing	Russia	100	100
ООО Neftyanaya Kompaniya Sibneft-Yugra*	Russia	99	99
ООО Nizhnevartovskiy GPK.....	Russia	100	100
ЗАО Novokuybishevsk petrochemical company	Russia	100	100
ООО Novourengoysky GCC.....	Russia	100	100
ООО Noye finansovye tehnologii**.....	Russia	100	100
ООО Noyabrskgazodobycha.....	Russia	100	100
ОАО NTV-PLUS	Russia	78	76
ООО Nyagangazpererabotka	Russia	100	100
ОАО Omskshina.....	Russia	83	83
ООО Orenburggazprom	Russia	100	100
ОАО Orton.....	Russia	71	71
ООО Permtransgaz.....	Russia	100	100
ОАО Plastic	Russia	67	66
ООО Podzemgazprom.....	Russia	100	100
ООО PRT-1	Russia	100	100
ООО PRT-2.....	Russia	100	100
ЗАО Purgaz.....	Russia	51	51
ООО Purgazodobycha.....	Russia	100	100
ООО Regionalnaya finansovaya kompaniya**	Russia	100	100

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<u>Subsidiary undertaking</u>	<u>Location</u>	<u>% of share capital as of 31 December</u>	
		<u>2006</u>	<u>2005</u>
ООО Regionalnaya investitsionnaya kompaniya**.....	Russia	100	98
ZAO Regiongazholding.....	Russia	56	56
ZAO Rosshelf.....	Russia	57	53
ZAO RSH-Center.....	Russia	99	99
ООО Samaratransgaz.....	Russia	100	100
ОАО Saranskiy zavod “Rezinotekhnika”.....	Russia	92	92
ООО Severgazprom.....	Russia	100	100
ОАО Severneftegazprom.....	Russia	100	100
ZAO Sevmorneftegaz.....	Russia	100	100
ООО Shinginskoe*.....	Russia	100	100
ООО Sibirskaya metanol chemical company.....	Russia	100	0
ООО Sibneft-AZS Service*.....	Russia	100	100
ООО Sibneft-Chukotka*.....	Russia	100	100
ООО Sibneft-Khantos*.....	Russia	100	100
ОАО Sibneft-Noyabrskneftegaz*.....	Russia	100	100
ОАО Sibneft-Noyabrskneftegazgeophysika*.....	Russia	81	81
Sibneft Oil Trade Company GmbH*.....	Austria	100	100
ОАО Sibneft-Omskiy NPZ*.....	Russia	100	100
ОАО Sibneft-Omsknefteproduct*.....	Russia	100	100
ООО Sibneft-Resource*.....	Russia	100	—
ООО Sibneft-St.Petersburg*.....	Russia	100	100
ОАО Sibneft-Tyumennefteproduct*.....	Russia	90	90
ООО Sibneft-Vostok*.....	Russia	100	100
Sib Oil Trade Ltd*.....	Virgin Islands	100	100
ОАО АК Сибур.....	Russia	99	99
ООО Сибур-Europe.....	Switzerland	100	100
ZАО Сибур-Gazservice.....	Russia	100	100
ООО Сибур-Geotekstil.....	Russia	100	100
ОАО Сибур Holding.....	Russia	100	100
ZАО Сибур-Khimprom.....	Russia	100	100
ОАО Сибур-Neftekhim.....	Russia	100	100
ОАО Сибур-PETF.....	Russia	100	100
ООО Сибур-Russian-Tires.....	Russia	100	100
ОАО Сибур-Tyumen.....	Russia	100	100
ОАО Сибур-Tyumen-Gaz.....	Russia	100	100
ОАО Сибур-Volzhskiy.....	Russia	100	100
АКБ Sovfintrade (ZАО).....	Russia	99	99
ZАО Spec’cisterni.....	Russia	100	100
ОАО Spetsgazavtotrans.....	Russia	51	51
ZАО Stimul.....	Russia	100	100
ООО Surgutgazprom.....	Russia	100	100
ООО Szhizhenniy gas.....	Russia	100	100
ООО Tattransgaz.....	Russia	100	100
ООО Tobolsk-Neftekhim.....	Russia	100	100
ООО Tolyattikauchuk.....	Russia	100	100
ООО Tomskneftekhim.....	Russia	100	100
ООО Tomsk petrochemical plant.....	Russia	100	100
ООО Tomsktransgaz.....	Russia	100	100
ООО Trade Garant**.....	Russia	100	100
ОАО Tsentrenergogaz.....	Russia	62	62

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<u>Subsidiary undertaking</u>	<u>Location</u>	<u>% of share capital as of 31 December</u>	
		<u>2006</u>	<u>2005</u>
ОАО Тсентргаз.....	Russia	99	99
ОАО TV Company NTV.....	Russia	100	69
ООО ТюменНИИгипрогаз.....	Russia	100	100
ООО Тюментрансгаз.....	Russia	100	100
ОАО Уралоргсинтез.....	Russia	95	88
ООО Уралский Тире Планта.....	Russia	100	100
ООО Уралтрансгаз.....	Russia	100	100
ООО Уренгойгазпром.....	Russia	100	100
ООО ВНИИгаз.....	Russia	100	100
ОАО Волгограднефтемаш.....	Russia	51	51
ООО Волгоградтрансгаз.....	Russia	100	100
ООО Волготрансгаз.....	Russia	100	100
ОАО VoltairProm.....	Russia	82	82
ОАО Волжский азотный завод.....	Russia	91	51
ОАО Воронежский завод каучука.....	Russia	75	75
ОАО Востокгазпром.....	Russia	99	99
ЗАО Ямалгазинвест.....	Russia	100	100
ООО Ябурггаздобыча.....	Russia	100	100
ОАО Ярославский завод шин.....	Russia	88	88
ООО Югтрансгаз.....	Russia	100	100
ОАО Южно-Балтийский ГПК.....	Russia	100	100
ОАО Запсибгазпром.....	Russia	77	77
Zarubezhgaz Management und BeteiligungsGesellschaft mbH (ZMB).....	Germany	100	100
ZGG Cayman Holding Ltd.....	Cayman Islands	100	—
ZGG Cayman Ltd.....	Cayman Islands	100	—
ZMB (Schweiz) AG.....	Switzerland	100	100

* Subsidiaries acquired within acquisition of OAO Gazprom Neft

** Subsidiaries of AB Gazprombank (ZAO)

*** The Group controls 66% of voting rights in subsidiary

In 2006 the Group acquired an additional interest of 8.4% in the share capital of ZAO ArmRosgazprom for RR 2,984 paid in cash. This transaction was performed in connection of ZAO ArmRosgazprom's additional stock issuance.

In September 2005 the Group purchased a 3.016% interest in OAO Gazprom Neft for RR 16,408 and in October 2005 the Group purchased a further 72.66% interest in OAO Gazprom Neft for USD 13,079 million paid in cash. In accordance with IFRS 3 the Group recognized the assets and liabilities, acquired in this business combination based upon their fair values. Such fair value determination includes assumptions and estimates regarding future events. Management commissioned independent assessment by independent appraisers.

Subsequent to acquisition of OAO Gazprom Neft the assets, liabilities, income and expenses of Gazprom Neft for the period from the date control was established by the Group were consolidated by the Group.

Gazprom Neft contributed revenue of RR 90,989 and profit of RR 15,270 to the Group for the period from the date of acquisition to 31 December 2005. If the acquisition had occurred on 1 January 2005, Group revenue for 2005 would have been RR 1,705,122 and profit for 2005 would have been RR 386,027.

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The appraisal and related purchase accounting was completed in 2006. Details of the assets and liabilities acquired according to the final assessment in the Gazprom Neft acquisition are as follows:

	Carrying amount immediately before business combination	Attrib fair value
Cash and cash equivalents	8,985	8,985
Accounts receivable and prepayments	55,988	58,401
Inventories	14,708	13,969
Other current assets	26,481	24,117
Property, plant and equipment:		
Production licenses	—	230,708
Wells	24,791	54,793
Other operating assets	41,498	118,393
Assets under construction	42,110	36,474
Investments in associated undertakings	71,657	153,043
Other non-current assets	5,414	7,140
Accounts payable and accrued charges	(55,834)	(56,076)
Short-term borrowings and current portion of long-term borrowings	(6,655)	(8,783)
Long-term borrowings	(40,136)	(40,869)
Deferred income tax liability	(3,480)	(92,732)
Other non-current liabilities	—	(7,649)
Fair value of net assets of subsidiary		499,914
Less: minority interest		(123,019)
Fair value of acquired interest in net assets of subsidiary		376,895
Goodwill		13,859
Total purchase consideration		390,754
Less: cash and cash equivalents of subsidiary acquired		(8,985)
Outflow of cash and cash equivalents on acquisition		381,769

The amounts shown above reflect the effects of finalising the accounting for the acquisition. Such amounts differ from the provisional amounts previously disclosed as a result of the completion of the final appraisal. The comparative balance sheet as of December 31, 2005 has been updated since its original issuance to reflect the revisions. The originally issued consolidated statement of income was not revised as the impact of the final appraisal was immaterial. The amount of goodwill arising on the acquisition is included in “Other non-current assets” of the consolidated balance sheet.

31 MINORITY INTEREST

	Year ended 31 December	
	2006	2005
Minority interest at the beginning of the reporting period	142,317	45,551
Minority interest share of net profit of subsidiary undertakings	23,116	4,806
Dividends	(9,110)	—
Minority interest as a result of acquisitions	5,039	91,960
Minority interest at the end of the reporting period	161,362	142,317

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2006

(In millions of Russian Roubles)

32 RELATED PARTIES

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

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding as of 31 December 2006 are detailed below.

Government

The Government of the Russian Federation is the ultimate controlling party of OAO Gazprom and has a controlling interest (including both direct and indirect ownership) of over 50% in OAO Gazprom (see Note 23). As of 31 December 2006 38.37% of OAO Gazprom issued shares were directly owned by the Government. The Government does not prepare financial statements for public use. Following the General Meeting of Shareholders in June 2005, the 11 seats on the Board of Directors include six State representatives, three management representatives and two independent directors. Governmental economic and social policies affect the Group’s financial position, results of operations and cash flows.

As a condition of privatisation in 1992, the Government imposed an obligation on the Group to provide an uninterrupted supply of gas to customers in the Russian Federation at government controlled prices.

Parties under control of the Government

As of and for the year ended 31 December 2006 and 2005, respectively, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

Note	As of 31 December 2006		For the year ended 31 December 2006		
	Assets	Liabilities	Revenues	Expenses	
	Transactions and balances with the Government				
	Current profit tax	15,488	18,957	—	213,844
	Unified social tax	359	1,015	—	27,918
	VAT recoverable/payable.....	180,851	21,311	—	—
	Custom duties	23,339	—	—	—
25	Other taxes.....	9,293	27,919	—	187,245
	Transactions and balances with other parties under control of the Government				
	Gas sales	—	—	169,812	—
	Accounts receivable/payable	81,610	4,250	—	—
25	Electricity and heating expenses	—	—	—	45,062
	Oil transportation expenses	—	—	—	43,672
	Loans	—	32,107	—	—
	Interest income/expense	—	—	3,982	1,006
	Short-term financial assets.....	28,762	—	1,694	—
	Investments in associated undertakings and jointly controlled entities	34,828	—	5,377	—
	Available-for-sale long-term financial assets	128,599	—	—	—

OAo GAZPROM

NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2006

(In millions of Russian Roubles)

Note	As of 31 December 2005		For the year ended 31 December 2005		
	Assets	Liabilities	Revenues	Expenses	
	Transactions and balances with the Government				
	Current profit tax	11,968	15,265	—	118,028
	Unified social tax	237	965	—	22,558
	VAT recoverable/payable.....	185,000	59,883	—	—
	Custom duties	16,280	—	—	—
25	Other taxes.....	637	29,832	—	113,966
	Transactions and balances with other parties under control of the Government				
	Gas sales	—	—	148,836	—
	Accounts receivable/payable	33,905	5,007	—	—
25	Electricity and heating expenses	—	—	—	33,031
	Oil transportation expenses	—	—	—	8,679
	Loans	—	12,053	—	—
	Interest income/expense	—	—	1,579	1,066
	Short-term financial assets.....	24,752	—	—	—
	Investments in associated undertakings and jointly controlled entities	18,422	—	—	139
	Available-for-sale long-term financial assets	54,745	—	—	—

Gas sales and respective accounts receivable, electricity and heating expenses and respective accounts payable included in the table above are related to major State controlled utility companies.

See the consolidated statement of changes in equity for returns of social assets to governmental authorities during the years ended 31 December 2006 and 2005. See Note 11 for net book values as of 31 December 2006 and 2005 of social assets vested to the Group at privatisation.

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of OAO Gazprom) short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies, amounted to approximately RR 1,173 and RR 1,027 for the years ended 31 December 2006 and 2005, respectively. Such amounts include personal income tax and are net of unified social tax. Government officials, who are directors, do not receive remuneration from the Group. The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the annual employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement benefit programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Gazfund, and a one-time retirement payment from the Group. Employees of majority of Group companies are eligible for such benefits.

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2006

(In millions of Russian Roubles)

Associated undertakings and jointly controlled entities

For the years ended 31 December 2006 and 2005 the Group had the following significant transactions with associated undertakings:

	For the Year ended 31 December	
	2006	2005
	Revenues	Revenues
Gas sales		
RosUkrEnergo AG.....	157,450	30,590
Wintershall Erdgas Handelshaus GmbH & Co.KG	64,492	54,113
ZAO Panrusgaz	40,954	36,767
WINGAS GmbH.....	36,829	18,932
OAo Mosenergo.....	28,044	24,470
Wintershall Erdgas Handelshaus Zug AG	21,888	15,978
AO Gazum.....	17,635	13,344
Promgaz SPA.....	8,960	7,483
GWH – Gaz und Warenhandels GmbH.....	8,923	8,067
AO Moldovagaz	4,913	4,561
Gas transportation sales		
RosUkrEnergo AG.....	11,881	6,508
	Expenses	Expenses
Purchased gas		
RosUkrEnergo AG.....	16,863	18,385
TOO KazRosGaz	9,179	5,428
Gas transportation purchases		
SGT EuRoPol GAZ.....	10,843	12,048
Construction services purchases		
OAo Stroytransgaz	30,530	16,593

Gas is sold to associated undertakings in the Russian Federation mainly at the rates established by the Federal Tariffs Service. Gas is sold outside the Russian Federation (except for that sold to AO Moldovagaz and RosUkrEnergo AG) under long-term contracts based on world commodity prices.

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2006

(In millions of Russian Roubles)

As of 31 December 2006 and 2005 the Group had the following significant balances with associated undertakings:

	As of 31 December 2006		As of 31 December 2005	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and Prepayments				
RosUkrEnergo AG	62,702	—	2,678	—
WINGAS GmbH	16,141	—	8,463	—
ZAO Panrusgaz	7,363	—	5,704	—
AO Gazum	2,073	—	2,495	—
AO Moldovagaz*	1,847	—	717	—
Wintershall Erdgas Handelshaus GmbH & Co.KG.....	787	—	—	—
OAO Mosenergo	501	—	405	—
Long-term accounts receivable and prepayments				
RosUkrEnergo AG	14,903	—	—	—
WINGAS GmbH	13,282	—	13,086	—
SGT EuRoPol GAZ.....	4,900	—	5,960	—
Short-term accounts payable				
RosUkrEnergo AG	—	16,904	—	4,210
SGT EuRoPol GAZ.....	—	1,518	—	3,341
TOO KazRosGaz	—	750	—	488
Short-term accounts receivable and payable for construction services				
OAO Stroytransgaz	712	8,128	3,603	2,781

* Net of impairment provision on accounts receivable in the amount of RR 22,484 and RR 18,938 as of 31 December 2006 and 2005, respectively.

Investments in associated undertakings and jointly controlled entities are disclosed in Note 12.

Information on guarantees issued on behalf of BSPC and Gaztransit is disclosed in Note 33.

33 COMMITMENTS, CONTINGENCIES AND OPERATING RISKS

Operating environment

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in the Russian Federation. Due to the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. It is impossible to predict the nature and frequency of these developments and events associated with these risks as well as their effect on future operations and earnings.

Legal proceedings

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

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2006

(In millions of Russian Roubles)

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments.

Management believes that its interpretation of the relevant legislation as of 31 December 2006 is appropriate and all of the Group's tax, currency and customs positions will be sustainable.

Group changes

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

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be reliably estimated, but could be material. In the current enforcement climate under existing legislation, the Group management believes that there are no significant liabilities for environmental damage, other than amounts that have been accrued in the consolidated financial statements.

Social commitments

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

Financial guarantees

	31 December	
	2006	2005
Outstanding guarantees issued on behalf of:		
BSPC.....	30,150	35,916
ZAO Investment Technologies	6,005	—
Gaztransit	1,940	2,795
Other.....	12,770	7,398
	<u>50,865</u>	<u>46,109</u>

Included in financial guarantees are amounts denominated in USD 1,511 million and USD 1,459 million as of 31 December 2006 and 2005, respectively.

In July 2005 BSPC refinanced some of the existing liabilities, guaranteed by the Group, by means of repayment of the liabilities to a group of Italian and Japanese banks. For the purpose of this transaction loans in the amount of USD 1,185.3 million were received from Gazstream S.A. The Group guaranteed the above loans. As of 31 December 2006 and 2005, outstanding amounts of these loans were RR 29,386 (USD 1,116 million) and RR 34,920 (USD 1,213 million), respectively, which were guaranteed by the Group, pursuant to its obligations.

As of 31 December 2006 and 2005 BSPC also borrowed RR 764 (USD 29 million) and RR 996 (USD 35 million) of credit facilities, provided by Depfa bank, which were guaranteed by the Group.

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2006

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In November 2006 the Group provided a guarantee to Lascor Limited on behalf of ZAO Investment Technologies with respect to its purchase of OAO Salavatnefteorgsyntez shares in the amount of RR 6,005 (USD 228 million).

Line “Other” includes mainly guarantees issued by AB Gazprombank (ZAO) to third parties of RR 7,461 and RR 5,616 as of 31 December 2006 and 2005, respectively.

Other guarantees

As of 31 December 2006 and 2005 the Group’s banking subsidiaries and NPF Gazfund pledged RR 229 and RR 1,452, respectively of corporate bonds included in assets held for trading (see Note 8) and RR 33,951 and RR 827, respectively of treasury shares (see Note 23) under repurchase agreements.

As of 31 December 2006 and 2005 the Group pledged RR 9,410 (USD 358 million) and RR 10,290 (USD 358 million), respectively of US T-bills included in short-term available-for-sale financial assets (see Note 8) as a guarantee of the loan received from Dresdner Bank AG.

Capital commitments

In the normal course of business, the Group has entered into contracts for the purchase of property, plant and equipment. The Management Committee has submitted to the Board of Directors the amended investment programme for 2007 including capital expenditure budget of about RR 300 billion.

Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 December 2006 no loss is expected to result from these long-term commitments.

Loan commitments

As of 31 December 2006 and 2005 the Group’s banking subsidiary AB Gazprombank (ZAO) had undrawn loan commitments related to credit facilities issued to external customers in amounts of RR 52,824 and RR 48,626, respectively.

34 FINANCIAL RISK FACTORS

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

Foreign exchange risk

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

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

The Group has investments in foreign entities (see Notes 12 and 30), whose net assets are exposed to currency translation risk. Currency exposure of the net assets of the subsidiaries is reduced primarily through borrowings denominated in Euro. Exchange differences on the Euro loans are recognized in the consolidated statement of income.

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NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2006

(In millions of Russian Roubles)

Interest rate risk

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

Credit risk

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

Commodity risk

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

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, management aims to maintain flexibility in funding by keeping committed funds available.

35 POST BALANCE SHEET EVENTS

Investments

In April 2007, the Group acquired 50% plus one share of Sakhalin Energy Investment Company Ltd., which is the operator of Sakhalin-2 project, for USD 7,450 million paid in cash. Management is currently assessing the financial statements impacts of the transaction.

In May 2007, the Group acquired additional shares of OAO "Mosenergo" for RR 60,040 paid in cash. As a result of this transaction Group increased its interest in OAO "Mosenergo" to 49.76%.

Borrowings

In February 2007, the Group issued RR 5,000 million bonds in due 2014 at an interest rate of 7.23%.

In March 2007, the Group received long-term loans from Credit Suisse First Boston in the amount of USD 470 million at an interest rate of 5.60% due to 2008 and in the amount of USD 480 million at an interest rate of 5.65% due in 2009.

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In March 2007, the Group issued Euro 500 million Loan Participation Notes due 2017 at an interest rate of 5.44% and USD 1,300 million Loan Participation Notes due 2022 at an interest rate of 6.51% under the USD 15,000 million Programme for the Issuance of Loan Participation Notes.

In April 2007, the Group received a long-term loan from ABN AMRO in the amount of USD 5,450 million at an interest rate of Libor + 0.3% due in 2008 and, to refinance part of this loan the Group received two loans in the amount of USD 1,000 million at an interest rate of Libor + 0.4% due in 2010 and in the amount of USD 1,000 million at an interest rate of Libor + 0.5% due in 2012

In June 2007, the Group issued Euro 700 million Loan Participation Notes due 2014 at an interest rate of 5.36% and UK pound 800 million Loan Participation Notes due 2013 at an interest rate of 6.58% under the USD 15,000 million Programme for the Issuance of Loan Participation Notes.

ОАО ГАЗПРОМ
INVESTOR RELATIONS

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Gaz Capital S.A.
Registered Office: 2 Boulevard Konrad Adenauer
L-1115 Luxembourg
R.C.S.: B 95 071
(the 'Company')
Annual Accounts for the year ended 31 December 2006

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Independent Auditor's Report

To the Shareholders of
Gaz Capital S.A.

We have audited the accompanying annual accounts of Gaz Capital S.A., which comprise the balance sheet as at December 31, 2006, and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Independent Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the Independent Auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the Independent Auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these annual accounts give a true and fair view of the financial position of Gaz Capital S.A. as of December 31, 2006, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

PricewaterhouseCoopers S.à r.l.

Luxembourg, July 11, 2007

Réviseur d'entreprises
Represented by



Véronique Lefebvre

Gaz Capital S.A.
Registered Office: 2 Boulevard Konrad Adenauer
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Balance Sheet
As at 31 December 2006

		31/12/2006	31/12/2005
		EUR	EUR
<u>ASSETS</u>			
FIXED ASSETS			
Financial assets			
Loans to affiliated undertakings	(2)	6,213,869,255	4,017,811,704
CURRENT ASSETS			
Amounts owed by affiliated undertakings			
becoming due and payable within one year	(3)	87,811,557	72,696,715
Other debtors			
becoming due and payable within one year		318,978	319,045
becoming due and payable after more than one year		490,841	174,534
Cash at bank	(4)	14,991	41,090
		88,636,367	73,231,384
		6,302,505,622	4,091,043,088
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
CAPITAL AND RESERVES			
Subscribed capital		31,000	31,000
Profit or loss for the financial year		—	—
		31,000	31,000
CREDITORS			
Non Convertible Bonds			
becoming due and payable after more than one year	(5)	6,213,869,255	4,017,811,704
Amounts owed to affiliated undertakings			
becoming due and payable within one year	(6)	87,811,557	72,696,715
Other creditors			
becoming due and payable after more than one year	(7)	451,474	195,773
becoming due and payable within one year		249,707	306,878
Deferred income	(10A)	92,629	1,018
		6,302,474,622	4,091,012,088
		6,302,505,622	4,091,043,088

The accompanying notes form an integral part of these annual accounts.

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Profit and loss account
for the year ended 31 December 2006

	Note	<u>31/12/2006</u>	<u>31/12/2005</u>
		EUR	EUR
CHARGES			
Operating charges		36,054	44,847
Interest payable and similar charges			
Concerning affiliated undertakings	(8)	303,274,860	221,609,378
Other interest payable and charges	(10B)	60,702	—
Tax on profit		<u>194,147</u>	<u>250,853</u>
Total Charges		<u><u>303,565,763</u></u>	<u><u>221,905,078</u></u>
INCOME			
Interest receivable and similar income			
Derived from affiliated undertakings	(9)	303,565,763	221,904,060
Other interest receivable and similar income	(10B)	<u>—</u>	<u>1,018</u>
Total Income		<u><u>303,565,763</u></u>	<u><u>221,905,078</u></u>

The accompanying notes form an integral part of these annual accounts.

Gaz Capital S.A.
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Notes to the annual accounts
for the year ended 31 December 2006

GENERAL

Gaz Capital S.A. is a Luxembourg company incorporated on 23 July 2003, for an unlimited duration, as a public limited liability company "Société Anonyme" and subject to the law of 10 August 1915 including the adoption of the law of 19 December 2002.

The registered office of the Company is established at 2 Boulevard Konrad Adenauer, L-1115 Luxembourg.

The Company's financial year starts on 1 January and ends on 31 December of each year.

The corporate object of the Company is:

- (i) the issue of notes and other debt securities under a Programme for the issuance of loan participation notes for the purpose of financing loans to Open Joint Stock Company Gazprom (OJSCG);
- (ii) the granting of loans to Open Joint Stock Company Gazprom;
- (iii) the granting of security interest over its assets to a trustee in relation to the issuance of the loan participation notes; and,
- (iv) the making of deposits at banks or with other depositaries.

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

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

Based on the criteria defined by Luxembourg law, the Company is exempted from the obligation to draw up consolidated accounts and a consolidated management report for the year ended 31 December 2006. Therefore, in accordance with the legal provisions, these annual accounts were presented on a non-consolidated basis to be approved by the shareholders during the annual general meeting.

The company is included in the consolidated accounts of Open Joint Stock Company Gazprom (OJSCG) forming at once the largest and the smallest body of undertakings of which the Company forms a part as a subsidiary undertaking. The registered office of that Company is located 16 Nametkina Street, B-420, R-117884 Moscow and the consolidated accounts are available at that address.

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Notes to the annual accounts
for the year ended 31 December 2006
(continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The annual accounts of the Company are prepared under the provision of the law of 10 August 1915 (as subsequently amended) including the adoption of the law of 19 December 2002, in accordance and compliance with Luxembourg Generally Accepted Accounting Principles, under the historical cost convention. The Company has taken the option provided by Article 215 of the Law to show an abridged balance sheet.

Loans and receivables

Loans and receivables are stated at their nominal value less provision for write-down. Write-downs are recorded if, in the opinion of the management, there is a permanent impairment in value which has occurred.

Notes issued

The notes payable is composed of long-term participation notes issued by the Company on the Luxembourg Stock Exchange.

The net proceeds for the long-term participation notes issued up to date are equal to the repayable amount.

Financing expenses and income

The financing costs incurred in the context of the issue of the long-term participation notes are recorded in the caption Interest and Similar Charges. In accordance with the "Fees and Expense Side Agreements" signed with Open Joint Stock Company Gazprom (OJSC), the Company recharges these costs and all other related costs to OJSG which include various operating expenses and taxation.

Interest income and expenses

Interest income and expenses are recorded on accrual basis.

Foreign currencies

Assets and liabilities, denominated in foreign currencies, are translated into EUR at the exchange rates in effect at the balance sheet date. In case of an economic link between an asset and a liability (closed position), they are translated globally. Realized gains and losses and unrealized losses arising are taken to the Profit and Loss account.

Revenues and expenses, denominated in foreign currencies, are translated into EUR at the exchange rates in effect on the transaction date.

Capital

The share capital of the Company consists of 31 shares with a par value of EUR 1.000 each (EUR 31.000). At 31 December 2006, 31 shares were issued and fully paid.

Legal reserve

In accordance with Luxembourg Company law, the Company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders.

As at 31 December 2006, the Company realised a NIL result. Consequently, there was no allocation to the legal reserve account.

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(continued)

BALANCE SHEET

2. Loans to affiliated undertakings

	<u>Balance at</u> <u>1 January 2006</u>	<u>Movement during</u> <u>the year</u>	<u>Balance at</u> <u>31 December 2006</u>
	EUR	EUR	EUR
The Loans, in the amount of EUR 6,213,869,255 , are comprised as follows:			
A Loan of EUR 1,000,000,000, which is collateral for the Series 1 Notes, was granted to Open Joint Stock Company Gazprom on 25 September 2003, at a fixed rate of 7.800% per annum, due 25 September 2010.....	1,000,000,000	—	1,000,000,000
A Loan of USD 1,200,000,000, which is collateral for the Series 2 Notes was granted to Open Joint Stock Company Gazprom on 28 April 2004, at a fixed rate of 8.625% per annum, due on 28 April 2034.....	1,017,811,704	(107,755,584)	910,056,120
A Loan of EUR 1,000,000,000, which is collateral for the Series 3 Notes, was granted to Open Joint Stock Company Gazprom on 1 June 2005, at a fixed rate of 5.875% per annum, due 1 June 2015...	1,000,000,000	—	1,000,000,000
A Loan of EUR 1,000,000,000, which is collateral for the Series 4 Notes, was granted to Open Joint Stock Company Gazprom on 9 December 2005, at a fixed rate of 4.560% per annum, due 9 December 2012	1,000,000,000	—	1,000,000,000
A Loan of EUR 780,000,000, which is collateral for the Series 5 Notes, was granted to Open Joint Stock Company Gazprom on 25 October 2006, at a fixed rate of 5.030% per annum, due 25 October 2014.....	—	780,000,000	780,000,000
A Loan of EUR 500,000,000, which is collateral for the Series 6 Notes, was granted to Open Joint Stock Company Gazprom on 22 November 2006, at a fixed rate of 5.136% per annum, due 22 November 2017.....	—	500,000,000	500,000,000
A Loan of USD 1,350,000,000, which is collateral for the Series 7 Notes was granted to Open Joint Stock Company Gazprom on 22 November 2006, at a fixed rate of 6.212% per annum, due on 22 November 2016	—	1,023,813,135	1,023,813,135
	<u>4,017,811,704</u>	<u>2,196,057,551</u>	<u>6,213,869,255</u>

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Open Joint Stock Company Gazprom has the right to exercise a Call Option and can at any time prior to the Repayment Date, give not less than 30 nor more than 60 days' irrevocable notice to the Issuer, in whole or in part, to repay the Loan at the Early Redemption Amount plus the Make Whole Premium. The notice to be given shall specify the date for repayment of the Loan and the date for the redemption of the Notes (the Call Redemption Date"), which shall be the next following Business Day after the date for repayment of the Loan. Immediately on receipt of such notice, the Issuer shall forward it to the Noteholders, the Trustee and the Principal Paying Agent. The Loan shall be repaid on the date specified in such notice.

The movement in the value of the USD loan is as a result of the revaluation at year end.

3. Amounts owed by affiliated undertakings becoming due and payable within one year

	<u>31/12/2006</u>	<u>31/12/2005</u>
	<u>EUR</u>	<u>EUR</u>
The interest receivable, amounting to EUR 87,811,557 , are comprised as follows:		
Interest on loan 1 to OJSCG	20,301,370	20,301,380
Interest on loan 2 to OJSCG	13,736,160	15,362,595
Interest on loan 3 to OJSCG	34,284,247	34,284,247
Interest on loan 4 to OJSCG	2,748,493	2,748,493
Interest on loan 5 to OJSCG	7,201,858	—
Interest on loan 6 to OJSCG	2,743,890	—
Interest on loan 7 to OJSCG	<u>6,795,539</u>	<u>—</u>
	<u>87,811,557</u>	<u>72,696,715</u>

4. Cash at bank

	<u>31/12/2006</u>	<u>31/12/2005</u>
	<u>EUR</u>	<u>EUR</u>
Cash at bank, in the amount of EUR 14,991 , are comprised as follows:		
Cash account with Deutsche Bank Luxembourg S.A.:		
EUR	5,667	33,545
USD	<u>9,324</u>	<u>7,545</u>
	<u>14,991</u>	<u>41,090</u>

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(continued)

5. Non Convertible Bonds

The Non Convertible Bonds issued, in the amount of **EUR 6,213,869,255**, are comprised as follows:

	<u>Balance at 1 January 2006</u>	<u>Movement during the year</u>	<u>Balance at 31 December 2006</u>
	EUR	EUR	EUR
Series 1 EUR 1,000,000,000 7.800% Loan			
Participation Notes, due 2010	1,000,000,000	—	1,000,000,000
Series 2 USD 1,200,000,000 8.625% Loan			
Participation Notes, due 2034	1,017,811,704	(107,755,584)	910,056,120
Series 3 EUR 1,000,000,000 5.875% Loan			
Participation Notes, due 2015	1,000,000,000	—	1,000,000,000
Series 4 EUR 1,000,000,000 4.560% Loan			
Participation Notes, due 2012	1,000,000,000	—	1,000,000,000
Series 5 EUR 780,000,000 5.030% Loan			
Participation Notes, due 2014	—	780,000,000	780,000,000
Series 6 EUR 500,000,000 5.136% Loan			
Participation Notes, due 2017	—	500,000,000	500,000,000
Series 7 USD 1,350,000,000 6.212% Loan			
Participation Notes, due 2016	—	1,023,813,135	1,023,813,135
	<u>4,017,811,704</u>	<u>2,196,057,551</u>	<u>6,213,869,255</u>

The Company issued each Series of Loan Participation Notes for the purpose of financing loans to Open Joint Stock Company Gazprom (OFSCG) under a US \$15,000,000,000 Programme. The total amount of Notes issued is collaterally secured by the Loans as referred to in Note 2. The Notes are limited recourse obligations and are payable solely from amounts received in respect of the collateral securing the Notes. In an event of default from OFSCG, all amount payable under the Loan shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are especially waived by OFSCG.

6. Amounts owed to affiliated undertakings

These amounts payable, amounting to **EUR 87,811,557**, are comprised as follows:

	<u>31/12/2006</u>	<u>31/12/2005</u>
	EUR	EUR
Interest payable on Fixed Rate Loan Participation Notes—Series 1	20,301,370	20,301,380
Interest payable on Fixed Rate Loan Participation Notes—Series 2	13,736,160	15,362,595
Interest payable on Fixed Rate Loan Participation Notes—Series 3	34,284,247	34,284,247
Interest payable on Fixed Rate Loan Participation Notes—Series 4	2,748,493	2,748,493
Interest payable on Fixed Rate Loan Participation Notes—Series 5	7,201,858	—
Interest payable on Fixed Rate Loan Participation Notes—Series 6	2,743,890	—
Interest payable on Fixed Rate Loan Participation Notes—Series 7	6,795,539	—
	<u>87,811,557</u>	<u>72,696,715</u>

7. Other creditors

Other creditors consist mainly of corporate taxes for the years 2003 to 2005. These expenses are recharged to Open Joint Stock Company Gazprom as other receivables.

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STATEMENT OF INCOME AND EXPENSES

	<u>31/12/2006</u>	<u>31/12/2005</u>
	EUR	EUR
8. <u>Interest payable and similar charges, concerning affiliated undertakings</u>		
The interest payable and similar charges, concerning affiliated undertakings, in the amount of EUR 303,274,860 , are comprised as follows:		
Issue expenses	23,831,566	19,958,866
Other costs	278,284	1,351,617
Interest payable on Loan Participation Notes—Series 1	78,000,000	78,000,000
Interest payable on Loan Participation Notes—Series 2	80,073,723	85,266,155
Interest payable on Loan Participation Notes—Series 3	58,750,000	34,284,247
Interest payable on Loan Participation Notes—Series 4	45,600,000	2,748,493
Interest payable on Loan Participation Notes—Series 5	7,201,858	—
Interest payable on Loan Participation Notes—Series 6	2,743,890	—
Interest payable on Loan Participation Notes—Series 7	6,795,539	—
	<u>303,274,860</u>	<u>221,609,378</u>
9. <u>Interest receivable and similar income, derived from affiliated undertakings</u>		
The interest receivable and similar income, derived from affiliated undertakings, in the amount of EUR 303,565,763 , are comprised as follows:		
Fees receivable from OJSCG	344,897	282,018
Fees received from OJSCG	24,055,856	21,323,147
Interest on Loan 1	78,000,000	78,000,000
Interest on Loan 2	80,073,723	85,266,155
Interest on Loan 3	58,750,000	34,284,247
Interest on Loan 4	45,600,000	2,748,493
Interest on Loan 5	7,201,858	—
Interest on Loan 6	2,743,890	—
Interest on Loan 7	6,795,539	—
	<u>303,565,763</u>	<u>221,904,060</u>

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(continued)

10 A Deferred income caption constitutes the overpayment amounts received from OJSCG.

10 B **Other interest payable and similar charges/Other interest receivable and similar income**

This caption consists mainly of realized exchange losses/gains at the date of the transaction.

OTHER NOTES

11. Personnel

During the year under review, the Company did not employ any personnel and, consequently, no payment for wages, salaries or social securities were made.

12. Taxation

The Company is subject to the general tax regulations to all commercial companies in Luxembourg.

13. Subsequent events

Subsequent to year end, the Company issued the following series:

On 02 March 2007—Series 8 EUR 500,000,000 at 5.44%

On 02 March 2007—Series 9 USD 1,300,000,000 at 6.51%

On 29 May 2007—Series 10 EUR 700,000,000 at 5.364%

On 06 June 2007—Series 11 GBP 800,000,000 at 6.58%

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Report of the Statutory Auditor

To the Shareholders of
Gaz Capital S.A.

Following our appointment by the General Meeting of the Shareholders dated June 14, 2005, we have audited the annual accounts of Gaz Capital S.A. for the year ended December 31, 2005 on pages 2 to 8. These annual accounts are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these annual accounts based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the balance sheet gives, in conformity with the Luxembourg legal and regulatory requirements, a true and fair view of the financial position of Gaz Capital S.A. as of December 31, 2005 and of the results of its operations for the year then ended.

PricewaterhouseCoopers S.à r.l.

Luxembourg, July 11, 2006

Réviseur d'entreprises
Represented by



Véronique Lefebvre

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Balance Sheet
As at 31 December 2005

	Note	<u>31/12/2005</u>	<u>31/12/2004</u>
		EUR	EUR
<u>ASSETS</u>			
FIXED ASSETS			
Financial assets			
Loans to affiliated undertakings	(2)	4,017,811,704	1,880,539,418
CURRENT ASSETS			
Amounts owed by affiliated undertakings			
becoming due and payable within one year	(3)	72,696,715	32,959,124
Other debtors			
becoming due and payable within one year		493,579	197,179
Cash and cash equivalents	(4)	<u>41,090</u>	<u>37,528</u>
		73,231,384	33,193,831
		<u>4,091,043,088</u>	<u>1,913,733,249</u>
 <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
SHAREHOLDERS' EQUITY			
Subscribed capital		31,000	31,000
Result for the year		<u>—</u>	<u>—</u>
		31,000	31,000
CREDITORS			
Non Convertible bonds			
becoming due and payable after more than one year.	(5)	4,017,811,704	1,880,539,418
Amounts owed to affiliated undertakings			
becoming due and payable after more than one year.	(6)	72,696,715	32,959,124
Other creditors			
becoming due and payable within one year	(7)	<u>503,669</u>	<u>203,707</u>
		<u>4,091,012,089</u>	<u>1,913,702,249</u>
		<u>4,091,043,088</u>	<u>1,913,733,249</u>

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

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Profit and loss account
for the year ended 31 December 2005

	Note	<u>31/12/2005</u>	<u>31/12/2004</u>
		EUR	EUR
CHARGES			
Operating charges		(44,847)	(35,343)
Interest payable and similar charges			
Interest and similar charges	(9)	(221,609,378)	(143,997,910)
Currency result	(10)	1,018	(29,793)
Corporate tax		<u>(250,853)</u>	<u>(150,425)</u>
TOTAL CHARGES		<u>(221,904,060)</u>	<u>(144,213,471)</u>
INCOME			
Interest and similar income	(8)	<u>221,904,060</u>	<u>144,213,471</u>
TOTAL INCOME		<u>221,904,060</u>	<u>144,213,471</u>

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

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Notes to the financial statements
for the year ended 31 December 2005

GENERAL

Gaz Capital S.A. is a Luxembourg company incorporated on 23 July 2003, for an unlimited duration, as a public limited liability company "société anonyme" and subject to the law of 10 August 1915 including the adoption of the law of 19 December 2002.

The registered office of the Company is established at 2 Boulevard Konrad Adenauer, L-1115 Luxembourg.

The Company's financial year starts on 1 January and ends on 31 December of each year.

The corporate object of the Company is:

- (i) the issue of notes and other debt securities under a Programme for the issuance of loan participation notes for the purpose of financing loans to Open Joint Stock Company Gazprom (OJSCG);
- (ii) the granting of loans to Open Joint Stock Company Gazprom;
- (iii) the granting of security interest over its assets to a trustee in relation to the issuance of the loan participation notes; and
- (iv) the making of deposits at banks or with other depositaries.

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

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

Based on the criteria defined by Luxembourg law, the Company is exempted from the obligation to draw up consolidated accounts and a consolidated management report for the year ending 31 December 2005. Therefore, in accordance with the legal provisions, these annual accounts were presented on a non-consolidated basis to be approved by the shareholders during the annual general meeting.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The annual accounts of the Company are prepared under the provision of the law of 10 August 1915 (as subsequently amended) including the adoption of the law of 19 December 2002, in accordance and compliance with Luxembourg Generally Accepted Accounting Principles, under the historical cost convention. The Company has taken the option provided by Article 215 of the Law to show an abridged balance sheet.

Loans and receivables

Loans and receivables are stated at their nominal value less provision for write-down. Write-downs are recorded if, in the opinion of the management, there is a permanent impairment in value which has occurred.

Notes issued

The notes payable is composed of long-term participation notes issued by the Company on the Luxembourg Stock Exchange. The net proceeds for the long-term participation notes issued up to date are equal to the repayable amount.

Operating and Financing expenses and income

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The operating and financing costs incurred in the context of the issue of the long-term participation notes are recorded in the caption Interest and Similar Charges. In accordance with loan agreements with Open Joint Stock Company Gazprom (OJSG), the Company recharges these costs and its taxes to OJSG. The recharge of costs is recorded in the caption Interest and Similar Income.

Interest income and expenses

Interest income and expenses are recorded on accrual basis.

Foreign currencies

Assets and liabilities, denominated in foreign currencies, are translated into EUR at the exchange rates in effect at the balance sheet date. In case of an economic link between an asset and a liability (closed position), they are translated globally. Realized gains and losses and unrealized losses arising are taken to the Profit and Loss account.

Revenues and expenses, denominated in foreign currencies, are translated into EUR at the exchange rates in effect on the transaction date.

Capital

The share capital of the Company consists of 31 shares with a par value of EUR 1,000 each (EUR 31,000). At 31 December 2005, 31 shares were issued and fully paid.

Legal reserve

In accordance with Luxembourg Company law, the company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholder.

As at 31 December 2005, the Company realised a NIL result. Consequently, there was no allocation to the legal reserve account.

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Notes to the financial statements
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(continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

BALANCE SHEET

2. Loans to affiliated undertakings

	Balance at 1 January 2005	Movement during the year	Balance at 31 December 2005
	EUR	EUR	EUR
The Loans, in the amount of EUR 4,017,811,704 , are comprised as follows:			
A Loan of EUR 1,000,000,000, which is collateral for the Series 1 Notes, was granted to Open Joint Stock Company Gazprom on 25 September 2003, at a fixed rate of 7.80% per annum, due 25 September 2010.	1,000,000,000	—	1,000,000,000
A Loan of USD 1,200,000,000, which is collateral for the Series 2 Notes was granted to Open Joint Stock Company Gazprom on 28 April 2004, at a fixed rate of 8.625% per annum, due on 28 April 2034.	880,539,418	137,272,286	1,017,811,704
A Loan of EUR 1,000,000,000, which is collateral for the Series 3 Notes, was granted to Open Joint Stock Company Gazprom on 1 June 2005, at a fixed rate of 5.875% per annum, due 1 June 2015.	—	1,000,000,000	1,000,000,000
A Loan of EUR 1,000,000,000, which is collateral for the Series 4 Notes, was granted to Open Joint Stock Company Gazprom on 9 December 2005, at a fixed rate of 4.56% per annum, due 9 December 2012.	—	1,000,000,000	1,000,000,000
	1,880,539,418	2,137,272,286	4,017,811,704

Open Joint Stock Company Gazprom has the right to exercise a Call Option and can at any time prior to the Repayment Date, give not less than 30 nor more than 60 days' irrevocable notice to the Issuer, in whole or in part, to repay the Loan at the Early Redemption Amount plus the Make Whole Premium. The notice to be given shall specify the date for repayment of the Loan and the date for the redemption of the Notes (the "Call Redemption Date"), which shall be the next following Business Day after the date for repayment of the Loan, Immediately on receipt of such notice, the issuer shall forward it to the Noteholders, the Trustee and the Principal Paying Agent. The Loan shall be repaid on the date specified in such notice.

The movement in the value of the USD loan is as a result of the revaluation at year end.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3. Amounts owed by affiliated undertakings becoming due and payable within one year

	<u>31/12/2005</u>	<u>31/12/2004</u>
The interest receivable, amounting to EUR 79,696,715 , is comprised as follows:		
Interest on loan 1 to OJSCG	20,301,380	20,301,370
Interest on loan 2 to OJSCG	15,362,595	12,657,754
Interest on loan 3 to OJSCG	34,284,247	—
Interest on loan 4 to OJSCG	<u>2,748,493</u>	<u>—</u>
	<u>72,696,715</u>	<u>32,959,124</u>

4. Cash and cash equivalents

	<u>31/12/2005</u>	<u>31/12/2004</u>
The cash and cash equivalents, in the amount of EUR 41,090 , are comprised as follows:		
Cash account with Deutsche Bank Luxembourg S.A.:		
EUR	33,545	31,000
USD	<u>7,545</u>	<u>6,528</u>
	<u>41,090</u>	<u>37,528</u>

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

5. Non convertible bonds

The Non Convertible Bonds issued are comprised as follows:

	<u>Balance at</u> <u>1 January 2005</u>	<u>Movement during</u> <u>the year</u>	<u>Balance at</u> <u>31 December 2005</u>
	EUR	EUR	EUR
The Company issued Series 1 EUR 1,000,000,000 7.80% Loan Participation Notes, due 2010, for the purpose of financing a loan to Open Joint Stock Company Gazprom under a US \$5,000,000,000 Programme for the issuance of Loan Participation Notes	1,000,000,000	—	1,000,000,000
The Company issued Series 2 USD 1,200,000,000 8.625% Loan Participation Notes, due 2034, for the purpose of financing a loan to Open Joint Stock Company Gazprom under the same Programme ...	880,539,418	137,272,286	1,017,811,704
The Company issued Series 3 EUR 1,000,000,000 5.875% Loan Participation Notes, due 2015, for the purpose of financing a loan to Open Joint Stock Company Gazprom under the same Programme ...	—	1,000,000,000	1,000,000,000
The Company issued Series 4 EUR 1,000,000,000 4.56% Loan Participation Notes, due 2012, for the purpose of financing a loan to Open Joint Stock Company Gazprom under the same Programme ...	—	1,000,000,000	1,000,000,000
	<u>1,880,539,418</u>	<u>2,137,272,286</u>	<u>4,017,811,704</u>

The total amount of Notes issued is collaterally secured by the Loans as referred to in Note 2. The Notes are limited recourse obligations and are payable solely from amounts received in respect of the collateral securing the Notes.

6. Amounts owed to affiliated undertakings

These amounts payable, amounting to **EUR 79,696,715**, are comprised as follows:

	<u>31/12/2005</u>	<u>31/12/2004</u>
Interest payable on Fixed Rate Loan Participation Notes—Series 1	20,301,380	20,301,370
Interest payable on Fixed Rate Loan Participation Notes—Series 2	15,362,595	12,657,754
Interest payable on Fixed Rate Loan Participation Notes—Series 3	34,284,247	—
Interest payable on Fixed Rate Loan Participation Notes—Series 4	2,748,493	—
	<u>72,696,715</u>	<u>32,959,124</u>

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

7. Other creditors

Other creditors consist mainly of corporate taxes for the years 2003 to 2005. These expenses are recharged to Open Joint Stock Company Gazprom as other receivables.

STATEMENT OF INCOME AND EXPENSES

8. Interest and similar Income

The interest and similar income, in the amount of **EUR 221,904,060** is comprised as follows:

Fees receivable from OJSCG	282,018	173,262
Fees received from OJSCG	21,323,147	12,867,874
Interest on Loan 1	78,000,000	78,002,603
Interest on Loan 2	85,266,155	53,169,732
Interest on Loan 3	34,284,247	—
Interest on Loan 4	2,748,493	—
	<u>221,904,060</u>	<u>144,213,471</u>

9. Interest and similar charges

	<u>31/12/2005</u>	<u>31/12/2004</u>
The interest and similar charges, in the amount of EUR 221,609,378 is comprised as follows:		
Issue expenses	19,958,866	12,504,151
Other fees	1,351,617	321,424
Interest payable on Loan Participation Notes—Series 1	78,000,000	78,002,603
Interest payable on Loan Participation Notes—Series 2	85,266,155	53,169,732
Interest payable on Loan Participation Notes—Series 3	34,284,247	—
Interest payable on Loan Participation Notes—Series 4	2,748,493	—
	<u>221,609,378</u>	<u>143,997,910</u>

10. Currency exchange result

The currency exchange result consists mainly of realized exchange losses at the date of the transaction.

OTHER NOTES

11. Personnel

During the year under review, the Company did not employ any personnel and, consequently, no payment for wages, salaries or social securities were made.

12. Taxation

The Company is subject to the general tax regulations to all commercial companies in Luxembourg.

APPENDIX A

DEGOLYER AND MACNAUGHTON

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DALLAS, TEXAS 75244

June 5, 2008

AO Gazprom
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Russia

Gentlemen:

Pursuant to your request, we have prepared estimates, as of December 31, 2007, of the extent and value of the proved and probable natural gas, oil, condensate, gas liquids, sulfur, and helium reserves owned or controlled by AO Gazprom (Gazprom) through its subsidiaries. These estimates are presented in our "Appraisal Report, as of December 31, 2007, on Gas, Oil, Gas Liquids, Sulfur, and Helium Reserves Owned by AO Gazprom in Certain Fields in Russia PRMS Case Executive Summary Confidential" (the Report). The 27 fields evaluated are located in eastern Siberia, western Siberia, the Barents Sea, the Pechora Sea, the Tomsk region, and the Volga-Ural Province of Russia.

Gazprom has represented that it owns a 51-percent interest in and controls the management of the producing company ZAO Purgaz, which owns 100 percent of the license of the Gubkinsk field. Gazprom also has represented that it owns a 65-percent interest in and controls the management of the producing company AO Severneftegazprom, which owns 100 percent of the license of the Yuzhno Russkoye field. As a result, 100 percent of the reserves of the Gubkinsk and Yuzhno Russkoye fields, including those portions not owned by Gazprom, are reported herein with Gazprom reserves.

The estimated proved and probable gas, oil, condensate, and gas liquids reserves owned or controlled by Gazprom, as of December 31, 2007, in the fields evaluated in the Report, expressed in millions of cubic feet (10^6ft^3) and millions of cubic meters (10^6m^3), or thousands of barrels (10^3bbl) and thousands of metric tons (10^3mt), are summarized by subsidiary as follows. Estimates of sulfur reserves, expressed in thousands of United States tons (10^3U.S.t) and thousands of metric tons (10^3mt), are shown in Attachment I. Estimates of helium reserves, expressed in millions of cubic feet (10^6ft^3) and millions of cubic meters (10^6m^3) are also shown in Attachment I.

Subsidiary	English Units		
	Gazprom Separator Gas		
	Total Proved (10 ⁶ ft ³)	Probable (10 ⁶ ft ³)	Proved Plus Probable (10 ⁶ ft ³)
OOO Gazprom dobycha Urengoi	113,056,561	15,330,981	128,387,542
OOO Gazprom dobycha Yamburg	159,480,695	18,543,382	178,024,077
OOO Gazprom dobycha Nadym	177,645,503	29,773,092	207,418,595
OOO Gazprom dobycha Noyabrsk	23,027,636	1,577,860	24,605,496
OAO Severneftegazprom	25,189,601	224,954	25,414,555
ZAO Purgaz	8,232,203	139,140	8,371,343
OOO Purgazdobycha	5,662,001	122,895	5,784,896
OOO Gazprom dobycha Orenburg	11,340,493	2,024,661	13,365,154
OOO Gazprom dobycha Astrakhan	9,094,940	421,657	9,516,597
ZAO Sevmorneftegaz	84,228,313	20,736,068	104,964,381
ZAO Stimul	1,456,094	192,607	1,648,701
OAO Tomskgazprom	1,272,741	26,839	1,299,580
OAO Gazprom	25,367,234	928,423	26,295,657
Total	645,054,015	90,042,559	735,096,574

Subsidiary	Metric Units		
	Gazprom Separator Gas		
	Total Proved (10 ⁶ m ³)	Probable (10 ⁶ m ³)	Proved Plus Probable (10 ⁶ m ³)
OOO Gazprom dobycha Urengoi	3,201,405	434,125	3,635,530
OOO Gazprom dobycha Yamburg	4,515,990	525,090	5,041,080
OOO Gazprom dobycha Nadym	5,030,360	843,080	5,873,440
OOO Gazprom dobycha Noyabrsk	652,070	44,680	696,750
OAO Severneftegazprom	713,290	6,370	719,660
ZAO Purgaz	233,110	3,940	237,050
OOO Purgazdobycha	160,330	3,480	163,810
OOO Gazprom dobycha Orenburg	321,127	57,332	378,459
OOO Gazprom dobycha Astrakhan	257,540	11,940	269,480
ZAO Sevmorneftegaz	2,385,080	587,180	2,972,260
ZAO Stimul	41,232	5,454	46,686
OAO Tomskgazprom	36,040	760	36,800
OAO Gazprom	718,320	26,290	744,610
Total	18,265,894	2,549,721	20,815,615

Notes:

1. Probable reserves have not been risk adjusted to make them comparable to proved reserves.
2. Reserves estimates for ZAO Purgaz include those reserves attributable to the 49-percent interest in ZAO Purgaz not owned by Gazprom.
3. Reserves estimates OOO Severneftegazprom include those reserves attributable to the 35-percent interest in OOO Severneftegazprom not owned by Gazprom.

DEGOLYER AND MACNAUGHTON

Subsidiary	English Units		
	Gazprom Oil		
	Total Proved (10 ³ bbl)	Probable (10 ³ bbl)	Proved Plus Probable (10 ³ bbl)
OOO Gazprom dobycha Urengoi	88,716	81,368	170,084
OOO Gazprom dobycha Yamburg	8,490	128,543	137,033
OOO Gazprom dobycha Nadym	0	659,294	659,294
OOO Gazprom dobycha Orenburg	181,411	83,948	265,359
ZAO Sevmorneftegaz	0	491,736	491,736
ZAO Stimul	299,131	136,933	436,064
Total	577,748	1,581,822	2,159,570

Subsidiary	Metric Units		
	Gazprom Oil		
	Total Proved (10 ³ mt)	Probable (10 ³ mt)	Proved Plus Probable (10 ³ mt)
OOO Gazprom dobycha Urengoi	11,618	10,710	22,328
OOO Gazprom dobycha Yamburg	1,120	18,760	19,880
OOO Gazprom dobycha Nadym	0	79,870	79,870
OOO Gazprom dobycha Orenburg	24,227	11,211	35,438
ZAO Sevmorneftegaz	0	71,170	71,170
ZAO Stimul	39,948	18,287	58,235
Total	76,913	210,008	286,921

Note: Probable reserves have not been risk adjusted to make them comparable to proved reserves.

DEGOLYER AND MACNAUGHTON

Subsidiary	English Units		
	Gazprom Condensate and Gas Liquids		
	Total Proved (10 ³ bbl)	Probable (10 ³ bbl)	Proved Plus Probable (10 ³ bbl)
OOO Gazprom dobycha Urengoi	2,419,105	352,135	2,771,240
OOO Gazprom dobycha Yamburg	728,755	256,573	985,328
OOO Gazprom dobycha Nadym	198,082	249,830	447,912
OOO Gazprom dobycha Orenburg	152,785	25,903	178,688
OOO Gazprom dobycha Astrakhan	1,049,617	47,864	1,097,481
ZAO Sevmorneftegaz	102,436	25,671	128,107
OA O Tomskgazprom	20,371	332	20,703
Total	4,671,151	958,308	5,629,459

Subsidiary	Metric Units		
	Gazprom Condensate and Gas Liquids		
	Total Proved (10 ³ mt)	Probable (10 ³ mt)	Proved Plus Probable (10 ³ mt)
OOO Gazprom dobycha Urengoi	292,485	42,788	335,273
OOO Gazprom dobycha Yamburg	92,480	32,120	124,600
OOO Gazprom dobycha Nadym	23,920	30,200	54,120
OOO Gazprom dobycha Orenburg	18,450	3,128	21,578
OOO Gazprom dobycha Astrakhan	126,750	5,780	132,530
ZAO Sevmorneftegaz	12,370	3,100	15,470
OA O Tomskgazprom	2,460	40	2,500
Total	568,915	117,156	686,071

Note: Probable reserves have not been risk adjusted to make them comparable to proved reserves.

The estimated Gazprom future net revenue and present worth to be derived from the production and sale of the proved and proved-plus-probable reserves owned or controlled by Gazprom in the fields evaluated in the Report, as of December 31, 2007 are summarized below, expressed in thousands of United States dollars (10³ U.S.\$). Values were estimated in United States dollars using the exchange rate effective December 31, 2007 which was Russian Rubles 24.5462 per U.S.\$1.00. The values shown include the value of sulfur and helium reserves estimated for OOO Gazprom dobycha Astrakhan and OOO Gazprom dobycha Orenburg in the Astrakhan and Orenburg fields, respectively, as shown on Attachment I.

Subsidiary	Gazprom			
	Future Net Revenue		Present Worth at 10 Percent	
	Total	Proved Plus	Total	Proved Plus
	Proved	Probable	Proved	Probable
	(10 ³ U.S.\$)	(10 ³ U.S.\$)	(10 ³ U.S.\$)	(10 ³ U.S.\$)
OOO Gazprom dobycha Urengoi	133,402,817	151,531,181	37,698,939	38,140,647
OOO Gazprom dobycha Yamburg	144,066,319	164,404,654	57,043,113	57,415,267
OOO Gazprom dobycha Nadym	209,224,695	243,215,357	40,565,692	41,997,922
OOO Gazprom dobycha Noyabrsk	18,716,803	20,040,006	9,189,425	9,328,087
OA O Severneftegazprom	22,108,747	22,357,372	6,262,989	6,624,553
ZAO Purgaz	7,314,413	7,423,943	3,262,151	3,300,663
OOO Purgazdobycha	4,772,777	4,882,433	2,679,146	2,697,674
OOO Gazprom dobycha Orenburg	7,387,721	8,895,361	2,771,242	2,889,499
OOO Gazprom dobycha Astrakhan	14,056,250	14,949,586	3,551,628	3,689,860
ZAO Sevmorneftegaz	207,102,336	271,245,863	14,724,980	17,112,182
ZAO Stimul	3,058,838	3,595,486	317,804	138,573
OA O Tomskgazprom	901,296	916,744	463,812	465,405
OA O Gazprom	16,942,870	17,677,181	1,156,428	1,160,974
Total	789,055,882	931,135,167	179,687,349	184,961,306

Notes:

1. Values for probable reserves have not been risk adjusted to make them comparable to values for proved reserves.
2. Future net revenue and present worth include the value of sulfur and helium reserves from the Astrakhan and Orenburg fields, as shown in Attachment I.
3. The values shown for ZAO Purgaz and total include revenues attributable to the 49-percent interest in ZAO Purgaz not owned by Gazprom.
4. The values shown for OOO Severneftegazprom and total include revenues attributable to the 35-percent interest in OOO Severneftegazprom not owned by Gazprom.
5. In preparation of these estimates, future income tax expenses have been taken into account at the field level and for transportation of gas for export.

DeGOLYER AND MacNAUGHTON

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 Report. These summaries should be considered in view of the conditions of the Report and are susceptible to being misunderstood apart from the Report.

Very truly yours,

DeGolyer and MacNaughton
DeGOLYER and MacNAUGHTON



Attachment

ATTACHMENT I
ESTIMATES
of
SULFUR and HELIUM NET RESERVES and REVENUE
owned by
OAD GAZPROM
as of
DECEMBER 31, 2007

	Gazprom Sulfur Reserves		Gazprom Helium Reserves	
	English Units (10 ³ U.S.t)	Metric Units (10 ³ mt)	English Units (10 ⁶ ft ³)	Metric Units (10 ⁶ m ³)
Total Proved	193,992	175,986	82	75
Probable	10,227	9,278	16	14
Proved plus Probable	204,219	185,264	98	89

	Gazprom Sulfur and Helium Revenue	
	Future Net Revenue (10 ³ U.S.\$)	Present Worth at 10 Percent (10 ³ U.S.\$)
OOO Gazprom dobycha Astrakhan		
Total Proved	2,492,447	634,961
Probable	114,223	17,238
Proved plus Probable	2,606,670	652,199
OOO Gazprom dobycha Orenburg		
Total Proved	319,514	138,871
Probable	59,338	12,943
Proved plus Probable	378,852	151,814
Grand Totals		
Total Proved	2,811,961	773,832
Probable	173,561	30,181
Proved plus Probable	2,985,522	804,013

Notes:

1. Sulfur reserves are expressed as thousands of U.S. tons (10³ U.S.t) and thousands of metric tons (10³mt).
2. All sulfur reserves are located in the Astrakhan and Orenburg fields.
3. Helium reserves are expressed as millions of cubic feet (10⁶ft³) and in millions of cubic meters (10⁶m³).
4. All helium reserves are located in the Orenburg field.
5. Probable reserves have not been risk adjusted to make them comparable to proved reserves..

APPENDIX B



June 4, 2008

ESTIMATES
Of
RESERVES and FUTURE NET REVENUES

Owned by
OAO "GAZPROM NEFT"
As of
JANUARY 1, 2008

	Net Oil Reserves		Net Gas Reserves		Future Net Revenues	
	English Units (MMBbls.)	Metric Units (MMTonnes)	English Units (Bcf)	Metric Units (Bcm)	Undisc. (MM\$)	Disc. At 10% Per Year (MM\$)
Total Proved	4,823	650	728	21	96,889	42,129
Probable	1,438	196	62	2	28,652	3,212
Proved plus Probable	6,261	846	790	23	125,541	45,341

Notes:

1. Probable reserves and associated revenue have not been adjusted for risk.

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