# OAO GAZPROM
# IAS CONSOLIDATED FINANCIAL STATEMENTS
# 31 DECEMBER 2000

PRICEWATERHOUSECOOPERS

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# AUDITORS' REPORT

To the Shareholders of OAO Gazprom

1. We have audited the accompanying consolidated balance sheet of OAO Gazprom and its subsidiaries and associates (the "Group") as of 31 December 2000 and the related consolidated statements of operations, of cash flows and of changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2000, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

4. Without qualifying our opinion, we draw your attention to Note 25 to the consolidated financial statements. The Government of the Russian Federation is the principal shareholder of the Group and governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

Moscow, Russian Federation
28 June 2001

**OAO GAZPROM**
**IAS CONSOLIDATED BALANCE SHEET**
**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

| Notes | | 31 December 2000 | 31 December 1999 |
|---|---|---|---|
| | **Assets** | | |
| | **Current assets** | | |
| 6 | Cash and cash equivalents | 14,503 | 15,440 |
| 7 | Marketable securities | 14,976 | 7,627 |
| 8 | Accounts receivable and prepayments | 265,298 | 264,088 |
| 9 | Inventories | 59,195 | 51,722 |
| 6 | Other current assets | 37,452 | 31,299 |
| | | 391,424 | 370,176 |
| | **Long-term assets** | | |
| 10 | Property, plant and equipment | 1,281,301 | 1,275,057 |
| 11 | Investments | 71,926 | 69,003 |
| 16 | Deferred tax asset | 98,048 | - |
| 25 | Other long-term assets | 37,399 | 58,939 |
| | | 1,488,674 | 1,402,999 |
| 5 | Total assets | 1,880,098 | 1,773,175 |
| | **Liabilities and equity** | | |
| | **Current liabilities** | | |
| 12 | Accounts payable and accrued charges | 85,213 | 75,777 |
| 13 | Taxes payable | 114,483 | 161,602 |
| 14 | Short-term loans and current portion of long-term borrowings | 169,465 | 127,284 |
| 17 | Provisions for liabilities and charges | 8,712 | 6,762 |
| | | 377, 873 | 371,425 |
| | **Long-term liabilities** | | |
| 15 | Long-term borrowings | 211,052 | 280,387 |
| 16 | Deferred tax | - | 104,657 |
| 17 | Provisions for liabilities and charges | 24,936 | 37,358 |
| 13 | Restructured tax liabilities | 8,853 | - |
| | | 244,841 | 422,402 |
| 5 | Total liabilities | 622,714 | 793,827 |
| 24 | Minority interest in subsidiaries | 8,715 | 7,422 |
| | **Shareholders' equity** | | |
| 18 | Share capital | 237,740 | 237,740 |
| 18 | Treasury shares | (9,661) | (6,369) |
| 18 | Retained earnings and other reserves | 1,020,590 | 740,555 |
| | | 1,248,669 | 971,926 |
| | Total liabilities and equity | 1,880,098 | 1,773,175 |

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

I.N. Bogatyreva
Chief Accountant
28 June 2001

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

**OAO GAZPROM**
**IAS CONSOLIDATED STATEMENT OF OPERATIONS**
**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

| Notes | | Year ended 31 December 2000 | 1999 |
|---|---|---|---|
| 5, 19 | Sales | 539,909 | 400,210 |
| 5, 20 | Operating expenses | (408,858) | (372,211) |
| | **Operating profit** | 131,051 | 27,999 |
| 4 | Exchange gain | 44,627 | 71,831 |
| 4 | Exchange loss | (47,209) | (114,204) |
| | Interest income | 11,412 | 12,970 |
| 13 | Discount recorded upon restructured taxes | 15,090 | - |
| | Interest expense on taxes payable | (13,792) | (18,695) |
| | Other interest expense | (28,528) | (17,717) |
| | Net finance costs | (18,400) | (65,815) |
| | Share of net income (losses) of associated undertakings | 635 | (591) |
| | **Income (loss) before gain on net monetary position, profit tax and minority interest** | 113,286 | (38,407) |
| 3 | Monetary gain | 40,892 | 61,558 |
| | **Profit before profit tax** | 154,178 | 23,151 |
| | Current profit tax expense | (69,221) | (29,507) |
| | Deferred profit tax benefit (expense) | 202,705 | (88,663) |
| 16 | Net profit tax benefit (expense) | 133,484 | (118,170) |
| | **Profit (loss) after profit tax** | 287,662 | (95,019) |
| 24 | Minority interest | (1,516) | (220) |
| 5, 21 | **Net profit (loss)** | 286,146 | (95,239) |
| 22 | **Basic profit (loss) per share (in Roubles)** | 13.70 | (4.51) |

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**OAO GAZPROM**
**IAS CONSOLIDATED STATEMENT OF CASH FLOWS**
**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

| Notes | | Year ended 31 December 2000 | 1999 |
|---|---|---|---|
| | **Operating activities** | | |
| 23 | **Net cash provided by operating activities** | 88,479 | 17,266 |
| | **Investing activities** | | |
| | Capital expenditures | (48,539) | (42,137) |
| | Net change in loans made | 1,452 | (5,113) |
| | Interest received | 10,568 | 12,013 |
| 10 | Interest paid and capitalised | (14,565) | (10,826) |
| | Purchase of subsidiary, net of cash acquired | - | (1,880) |
| | Sale of investments | 2,576 | 2,403 |
| | Purchase of investments | (7,028) | (11,607) |
| | **Net cash used for investing activities** | (55,536) | (57,147) |
| | **Financing activities** | | |
| | Proceeds from long-term borrowings (including current portion) | 15,998 | 65,899 |
| | Reduction of long-term borrowings (including current portion) | (98,412) | (126,915) |
| | Sale of promissory notes | 49,684 | 5,238 |
| | Redemption of promissory notes | (22,186) | (1,580) |
| 15 | (Repayment) proceeds from issuance of bonds | (534) | 3,194 |
| | Net increase in short-term loans | 3,758 | 27,030 |
| | Effect of inflation accounting on borrowings and short-term loans | 63,234 | 97,216 |
| 18 | Dividends paid | (3,033) | (938) |
| | Interest paid | (28,087) | (18,466) |
| | Purchases of treasury shares | (7,111) | (7,975) |
| | Sales of treasury shares | 6,551 | 8,153 |
| | Profit tax on sales of treasury shares | (820) | (125) |
| 6 | Change in cash restricted on borrowings | (6,257) | (7,689) |
| | **Net cash (used for) provided by financing activities** | (27,215) | 43,042 |
| | Effect of exchange rate changes on cash and cash equivalents | 1,550 | 11,894 |
| | Effect of inflation accounting on cash and cash equivalents | (8,215) | (12,147) |
| | **(Decrease) increase in cash and cash equivalents** | (937) | 2,908 |
| 6 | Cash and cash equivalents, at beginning of year | 15,440 | 12,532 |
| 6 | **Cash and cash equivalents, at end of year** | 14,503 | 15,440 |

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28 June 2001

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**OAO GAZPROM**
**IAS CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**
**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

| Notes | | Number of shares outstanding (billions) | Share capital | Treasury shares | Retained earnings and other reserves | Total shareholders' equity |
|---|---|---|---|---|---|---|
| | **Balance at 31 December 1998** | 21.4 | 237,740 | (6,130) | 839,679 | 1,071,289 |
| | Net loss | - | - | - | (95,239) | (95,239) |
| 4, 18 | Net treasury share transactions | (0.3) | - | (239) | 292 | 53 |
| 18 | Translation differences | - | - | - | 1,232 | 1,232 |
| 4, 18 | Return of social assets to governmental authorities | - | - | - | (4,520) | (4,520) |
| 4, 18 | Dividends | - | - | - | (889) | (889) |
| | **Balance at 31 December 1999** | 21.1 | 237,740 | (6,369) | 740,555 | 971,926 |
| | Net profit | - | - | - | 286,146 | 286,146 |
| 4, 18 | Net treasury share transactions | (0.2) | - | (3,292) | 1,912 | (1,380) |
| 18 | Translation differences | - | - | - | 627 | 627 |
| 4, 18 | Return of social assets to governmental authorities | - | - | - | (5,420) | (5,420) |
| 4, 18 | Dividends | - | - | - | (3,230) | (3,230) |
| | **Balance at 31 December 2000** | 20.9 | 237,740 | (9,661) | 1,020,590 | 1,248,669 |

A.B. Miller
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28 June 2001

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Chief Accountant
28 June 2001

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## 1 NATURE OF OPERATIONS

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

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

The Group is directly involved in the following principal activities:

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

The weighted average number of employees during 2000 and 1999 was 306 thousand and 298 thousand respectively.

## 2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

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

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

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

## 3 BASIS OF PRESENTATION

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

**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

## 3 BASIS OF PRESENTATION (continued)

The preparation of consolidated financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

The adjustments and reclassifications made to the statutory accounts for the purpose of IAS reporting include the restatement for changes in the general purchasing power of the Russian Rouble ("RR") in accordance with IAS 29, "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. The restatement was calculated from the conversion factors derived from the Russian Federation Consumer Price Index, published by the Russian State Committee on Statistics ("Goscomstat"), and from indices obtained from other published sources for years prior to 1992.

The indices used to restate the consolidated financial statements, based on 1988 prices (1988=100) for the five years ended 31 December 2000, and the respective conversion factors used are:

| Year | Index | Conversion Factor |
|---|---|---|
| 1996 | 594,110 | 3.4 |
| 1997 | 659,403 | 3.0 |
| 1998 | 1,216,400 | 1.6 |
| 1999 | 1,661,481 | 1.2 |
| 2000 | 1,995,937 | 1.0 |

The significant guidelines followed in restating the consolidated financial statements are:

- all amounts are stated in terms of the measuring unit current at 31 December 2000;
- monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 2000;
- non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at 31 December 2000) and shareholders' equity, including the share capital, are restated by applying the relevant conversion factors;
- all items in the consolidated statements of operations and of cash flows are restated by applying appropriate conversion factors;
- the effect of inflation on the Group's net monetary position is included in the consolidated statement of operations as a net monetary gain or loss; and
- comparative amounts for 1999 are restated using the conversion factor 1.2 in order to state them in terms of the measuring unit current at 31 December 2000.

The consolidated statement of operations includes net monetary gains of RR 40,892 and RR 61,558 for the years ended 31 December 2000 and 1999, respectively, because on average the Group had net monetary liabilities in both years.

These statements are prepared in accordance with all International Accounting Standards effective for financial statements covering periods ended 31 December 2000.

### Reclassifications

Minor reclassifications have been made to certain prior year balances to conform to the current year presentation.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### Consolidation

Significant subsidiary companies in which the Group, directly or indirectly, has an interest of more than 50% of the voting rights or is otherwise able to exercise control over the operations have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred and are no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Separate disclosure is made of minority interests.

Acquisitions of subsidiaries are recorded in accordance with the purchase accounting method. The consolidated financial statements of the Group reflect the results of operations of any subsidiaries acquired from the date control is established.

Assets and liabilities of subsidiaries acquired are restated to comply with uniform Group accounting policies. Any excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary/associated undertaking at the date of acquisition is recorded as goodwill. In respect of associates, goodwill is included in investments in associated undertakings.

### Associated undertakings

Associated undertakings are undertakings over which the Group has significant influence, but which it does not control. Provisions are recorded for long-term impairment in value. Associated undertakings are accounted for using the equity method.

Equity accounting involves recognising in the income statement the Group's share of the associated undertakings' profit or loss for the year. The Group's interest in the associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate and includes goodwill on the acquisition.

### Mutual cancellation and barter transactions

A significant portion of accounts receivable arising from sales are settled either through a chain of non-cash transactions (mutual cancellations), sometimes involving several enterprises, or, to a lesser extent, through direct settlement by goods from the final customer (barter). A portion of operations, including capital expenditures, is transacted by mutual cancellations or barter. Such transactions are excluded from investing and financing activities in the consolidated statement of cash flows. Net cash received from operating activities in the consolidated statement of cash flow also represents actual cash flow transactions. However, individual items within operating activities are stated inclusive of both cash and non-cash transactions due to the significance of non-cash transactions in the form of barter and mutual-cancellation offsets. Management believes the costs which would be required to be expended to determine such information would outweigh the benefits of having such information.

Receivables and payables that are expected to be settled by mutual settlements, barter or other non-cash settlements, are recognised based on management's estimate of the fair value to be received or given up. Approximately, 22% and 40% of accounts receivable from gas sales settled during the years ended 31 December 2000 and 1999, respectively, were settled in this manner.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Deferred tax

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

### Foreign currencies

The balance sheets of foreign subsidiaries and associated undertakings and the monetary assets and liabilities which are held by the Group and denominated in foreign currencies at the year end are translated into Roubles at the exchange rates prevailing at the year end. Exchange differences arising on the retranslation of the net assets of foreign subsidiaries and associated undertakings are recognised as translation differences and included in shareholders' equity. Statements of operations of foreign entities are translated at average exchange rates for the year.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of operations.

### Property, plant and equipment

Property, plant and equipment are carried at historical cost restated to the equivalent purchasing power of the RR at 31 December 2000 on the basis of the indices included in Note 3.

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.

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

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised as part of the cost of the asset during the period of time that is required to complete and prepare the asset for its intended use.

The return to a governmental authority of social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatisation are recorded only upon both the transfer of title to, and termination of operating responsibility for, the social assets. These disposals are deemed to be shareholder transactions because they represent a return of assets for the benefit of governmental authorities, as contemplated in the original privatisation arrangements. Consequently, such disposals are accounted for as a charge to other reserves.

**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation is calculated on all assets on a straight line basis. Depreciation on wells and production equipment has been calculated on cost restated to the equivalent purchasing power of the Rouble at 31 December 2000, using the straight line method rather than, as is the more generally accepted international industry practice, on the unit-of-production method. As a result, gas production and changes in gas reserves do not impact the computation of the Group's depreciation. The estimated useful lives of the Group's assets are as follows:

| | Years |
|---|---|
| Pipelines | 33 |
| Wells and production equipment | 12-40 |
| Machinery and equipment | 10-18 |
| Buildings | 30-40 |
| Roads | 20-40 |
| Social assets | 10-40 |

Assets under construction are not depreciated.

**Investments**

Long-term investments, excluding bonds, are reflected at cost restated to the equivalent purchasing power of the RR at 31 December 2000. Bonds are reflected at amortised cost. Provision for impairment is only made where, in the opinion of the Group's management, there is a diminution in value, which is other than temporary. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the consolidated statement of operations.

**Marketable securities**

Marketable securities are valued at the lower of cost restated to the equivalent purchasing power of the Rouble at 31 December 2000 on the basis of indices included in Note 3, or market value.

**Accounts receivable**

Accounts receivable are carried at anticipated realisable value. An impairment estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. This estimate reflects, inter alia, the payment record of specific debtors and management's perception of the economic risks and factors specific to customers operating in certain regions and markets. Bad debts are written off in the year in which they are identified.

**Inventories**

Inventories are valued at the lower of net realisable value or weighted average cost restated to the equivalent purchasing power of the RR at 31 December 2000 on the basis of indices included in Note 3.

**Provisions**

Provisions including provisions for environmental liabilities, are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

**Impairment of assets**

At each balance sheet date management assess whether there is any indication that the recoverable value of the Group's assets has declined below the carrying value. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the consolidated statement of operations in the period in which the reduction is identified.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Pension and other post-retirement benefits

Mandatory contributions to the governmental pension scheme are expensed when incurred and are included within staff costs in the operating expenses. The cost of providing other immaterial discretionary pension payments and other post-retirement obligations (including constructive) is accrued and charged to the consolidated statement of operations so as to spread the regular cost over the service lives of employees.

### Revenue recognition

Sales are recognised for financial reporting purposes when products are delivered to customers and title passes and are stated net of value-added tax ("VAT"), excise taxes and other similar compulsory payments.

Interest income is recognised as it accrues (taking into account the effective yield on the asset), unless collectibility is in doubt.

### Research and development

Research and development expenditure is recognised as an expense except that costs incurred on development projects are recognised as development assets to the extent that such expenditure is expected to have future benefits. However, development costs initially recognised as an expense are not recognised as an asset in a subsequent period.

Development costs that have been capitalised are amortised from the commencement of the commercial production of the product to which they relate on a straight line basis over estimated useful lives.

### Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, trade creditors and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The Group is also party to derivative financial instruments including forward and spot transactions and option contracts in foreign exchange, gold and securities markets. The Group's normal policy is to measure these instruments using contractual rates, with resultant gains or losses being reported within the consolidated statement of operations. Following the financial crisis of August 1998, the Group adopted specific accounting methods as follows:

*Index Forwards*

The Group has either paid the amount due under index contracts, and realised a loss (gain), or negotiated a settlement for a lesser amount and has recognised a loss (gain) based on the agreed terms, or has not settled with the counterparty. Where no settlements or agreements have been reached the loss on the index contracts has been recognised by applying the rate of exchange ruling at the date of the contract maturity, for domestic counterparties, and the year end exchange rate, for foreign counterparties. This difference in the application of exchange rates is due to the fact that settlements with domestic counterparties in the normal course of business have been performed in RR, and with foreign counterparties in foreign currency. Management has not recorded a gain where no settlement or agreements have been reached due to the uncertainty of collectibility.

Gains and losses recognised on the index contracts have been offset within each counterparty since management believes that there is a legally enforceable right to offset these amounts, and it intends to settle all the contracts with the same counterparty on a net basis.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Deliverable Forwards*

The Group has either paid the amount due under deliverable contracts and recognised a loss (gain), or negotiated a settlement for a lesser amount and has recognised a loss (gain) based on the agreed terms, or has not settled with the counterparty. Where no settlements or agreements have been reached the loss on the deliverable contracts has been recognised based on the year end exchange rate, plus interest and penalties where applicable. Management has not recorded a gain where no settlement or agreements have been reached due to the uncertainty of collectibility.

Gains and losses on the deliverable contracts have not been offset within counterparties.

*Options*

Where conditions of an option agreement include the actual delivery of currency, the Group has treated a loss (gain) in the same way as for the deliverable forwards contracts, otherwise the Group has used the index forwards approach.

### Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term investments which are readily converted to cash and have an original maturity of three months or less.

### Treasury shares

Treasury shares are recorded at cost, using the specific identification method. The gains (losses) arising from treasury share transactions are recognised as a movement in shareholders' equity, net of associated costs including taxation.

### Dividends

Dividends are recognised as a liability at the balance sheet date only if they are proposed or declared before or on the balance sheet date.

### New Accounting Developments

A new International Accounting Standard, IAS 39 "Financial Instruments: Recognition and Measurement" came into effect on 1 January 2001. The Standard requires all financial assets and financial liabilities to be recognised on the balance sheet, including all derivatives. Management has not yet evaluated the impact of this standard on the Group's consolidated financial statements for the year ending 31 December 2001.

**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

## 5 SEGMENT INFORMATION

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

- Production - extraction of gas and other hydrocarbons;
- Refining - processing of gas and other hydrocarbons, and sales of other hydrocarbon products;
- Transport - transportation of gas;
- Distribution – sales of gas in the Russian Federation and abroad; and
- Other - other activities, including banking.

| | Production | Refining | Transport | Distribution | Other | Total |
|---|---|---|---|---|---|---|
| **31 December 2000** | | | | | | |
| Segment assets | 394,990 | 16,655 | 886,057 | 222,215 | 200,597 | 1,720,514 |
| Associated undertakings | - | - | 42,622 | 2,403 | 5,948 | 50,973 |
| Unallocated assets | | | | | | 168,388 |
| Inter-segment eliminations | | | | | | (59,777) |
| **Total assets** | | | | | | 1,880,098 |
| Segment liabilities | 21,882 | 4,367 | 21,034 | 67,626 | 30,081 | 144,990 |
| Unallocated liabilities | | | | | | 537,501 |
| Inter-segment eliminations | | | | | | (59,777) |
| **Total liabilities** | | | | | | 622,714 |
| Capital expenditures for the period | 43,463 | 2,652 | 41,654 | 332 | 31,054 | 119,155 |
| Depreciation | 20,826 | 1,801 | 45,371 | 101 | 3,007 | 71,106 |
| Charges for impairment and provisions | 14,053 | 9,949 | 975 | - | 17 | 24,994 |
| **31 December 1999** | | | | | | |
| Segment assets | 388,744 | 27,426 | 914,815 | 232,500 | 158,168 | 1,721,653 |
| Associated undertakings | - | - | 45,150 | 1,176 | 3,485 | 49,811 |
| Unallocated assets | | | | | | 68,709 |
| Inter-segment eliminations | | | | | | (66,998) |
| **Total assets** | | | | | | 1,773,175 |
| Segment liabilities | 13,397 | 3,803 | 22,275 | 72,848 | 30,452 | 142,775 |
| Unallocated liabilities | | | | | | 718,050 |
| Inter-segment eliminations | | | | | | (66,998) |
| **Total liabilities** | | | | | | 793,827 |
| Capital expenditures for the period | 32,106 | 1,817 | 84,213 | 1,240 | 27,433 | 146,809 |
| Depreciation | 19,523 | 1,567 | 41,721 | 78 | 1,805 | 64,694 |
| Charges for impairment and provisions | 15,752 | - | 4,771 | - | - | 20,523 |

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)

## 5 SEGMENT INFORMATION (continued)

| | Production | Refining | Transport | Distribution | Other | Total |
|---|---|---|---|---|---|---|
| **31 December 2000** | | | | | | |
| **Segment revenues** | | | | | | |
| Inter-segment sales | 42,382 | 9,443 | 99,880 | 5,902 | - | 157,607 |
| External sales | 5,433 | 29,605 | 26,726 | 448,518 | 29,627 | 539,909 |
| **Total segment revenues** | 47,815 | 39,048 | 126,606 | 454,420 | 29,627 | 697,516 |
| **Segment expenses** | | | | | | |
| Inter-segment expenses | (1,039) | (4,639) | (8,152) | (143,777) | - | (157,607) |
| External expenses | (61,594) | (30,641) | (108,379) | (156,809) | (29,002) | (386,425) |
| **Total segment expenses** | (62,633) | (35,280) | (116,531) | (300,586) | (29,002) | (544,032) |
| **Segment result** | (14,818) | 3,768 | 10,075 | 153,834 | 625 | 153,484 |
| Unallocated operating expenses | | | | | | (22,433) |
| **Operating income** | | | | | | 131,051 |
| Net finance costs | | | | | | (18,400) |
| Share of net profits of associated undertakings | | | 134 | 344 | 157 | 635 |
| Monetary gain | | | | | | 40,892 |
| **Income before profit tax** | | | | | | 154,178 |
| Profit tax benefit | | | | | | 133,484 |
| **Income after profit tax** | | | | | | 287,662 |
| Minority interest | | | | | | (1,516) |
| **Net income** | | | | | | 286,146 |
| **31 December 1999** | | | | | | |
| **Segment revenues** | | | | | | |
| Inter-segment sales | 32,254 | 8,777 | 90,056 | 3,746 | - | 134,833 |
| External sales | 3,555 | 15,918 | 20,902 | 336,287 | 23,548 | 400,210 |
| **Total segment revenues** | 35,809 | 24,695 | 110,958 | 340,033 | 23,548 | 535,043 |
| **Segment expenses** | | | | | | |
| Inter-segment expenses | (491) | (3,670) | (5,196) | (125,476) | - | (134,833) |
| External expenses | (54,061) | (17,093) | (107,815) | (132,115) | (27,122) | (338,206) |
| **Total segment expenses** | (54,552) | (20,763) | (113,011) | (257,591) | (27,122) | (473,039) |
| **Segment result** | (18,743) | 3,932 | (2,053) | 82,442 | (3,574) | 62,004 |
| Unallocated operating expenses | | | | | | (34,005) |
| **Operating profit** | | | | | | 27,999 |
| Net finance costs | | | | | | (65,815) |
| Share of net (losses) profits of associated undertakings | | | (808) | 334 | (117) | (591) |
| Monetary gain | | | | | | 61,558 |
| **Profit before profit tax** | | | | | | 23,151 |
| Profit tax expense | | | | | | (118,170) |
| **Loss after profit tax** | | | | | | (95,019) |
| Minority interest | | | | | | (220) |
| **Net loss** | | | | | | (95,239) |

## 5 SEGMENT INFORMATION (continued)

The inter-segment revenues mainly consist of:

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

Internal transfer prices are established by the management of the Group with the objective of providing for the specific medium and long-term funding requirements of the individual segments. Provisions for guarantees (see Note 26) have been included within unallocated expenses. Also included within unallocated expenses are corporate expenses, including provision for the impairment of other investments.

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

Capital expenditures comprise additions to property, plant and equipment. Charges for impairment relate only to those charges made against allocated assets. A significant portion of operations is transacted by mutual cancellations or barter. As disclosed in Note 4, such transactions are reported on the same basis as cash transactions. Consequently, expenses paid by mutual cancellations or barter are not disclosed as non-cash expenses in this note.

Substantially all of the Group’s operating assets are located in the Russian Federation. Gas sales to different geographical regions are disclosed in Note 19.

## 6 CASH AND CASH EQUIVALENTS

Included within cash and cash equivalents in the consolidated balance sheet are balances totalling RR 14,503 and RR 15,440 at 31 December 2000 and 1999, respectively, representing cash in hand and balances with banks. Included within other current assets are balances of cash and cash equivalents totalling RR 31,822 and RR 25,565 at 31 December 2000 and 1999, respectively, which are restricted as to withdrawal under the terms of certain of the borrowings (see Note 15). In addition, other current assets include balances of cash RR 4,990 and RR 4,335 at 31 December 2000 and 1999, respectively, which are restricted in subsidiary banks as to withdrawal under banking regulations.

## 7 MARKETABLE SECURITIES

At 31 December 2000, marketable securities include Ukrainian eurobonds of RR 5,862 held by National Reserve Bank (see Note 11). The remaining carrying value of marketable securities principally comprises Russian government bonds.

**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

## 8 ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | 31 December 2000 | 1999 |
|---|---|---|
| Trade receivables (net of a provision for doubtful accounts of RR 69,871 and RR 60,983 at 31 December 2000 and 1999, respectively) | 172,641 | 185,745 |
| Prepayments and advances paid (net of a provision for doubtful accounts of RR 5,404 and RR 6,940 at 31 December 2000 and 1999, respectively) | 27,992 | 20,093 |
| Other receivables (net of a provision for doubtful accounts of RR 25,647 and RR 23,584 at 31 December 2000 and 1999, respectively) | 64,665 | 58,250 |
| | 265,298 | 264,088 |

Substantially all trade receivables are currently receivable in accordance with their contractual terms and, accordingly, are classified as current assets. Management has considered the likelihood of collection of receivables beyond 2001 when determining the amount of the provision for doubtful accounts.

RR 79,487 and RR 90,955 of trade receivables are denominated in hard currency, mainly United States ("US") dollars, at 31 December 2000 and 1999, respectively.

Other receivables include RR 22,399 and RR 28,835 of receivables relating to the operations of Gazprombank and National Reserve Bank (see Note 24) at 31 December 2000 and 1999, respectively. These balances mainly represent loans issued to other banks and customers at commercial rates ranging from 4.7% to 23.6% per annum at 31 December 2000 and 3% to 40% per annum at 31 December 1999.

## 9 INVENTORIES

| Note | | 31 December 2000 | 1999 |
|---|---|---|---|
| | Materials and supplies | 29,433 | 24,742 |
| 20 | Gas (in pipelines and storage) | 24,995 | 21,160 |
| | Goods for resale | 3,378 | 3,578 |
| | Other | 1,389 | 2,242 |
| | | 59,195 | 51,722 |

Inventories are presented net of a provision for obsolescence of RR 12,068 and RR 8,239 at 31 December 2000 and 1999, respectively.

Goods for resale are stated at their net realisable value at 31 December 2000 and 1999, respectively.

**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

## 10 PROPERTY, PLANT AND EQUIPMENT

| | Pipelines | Wells and production equipment | Machinery and equipment | Buildings and roads | Total operating assets | Social assets | Assets under construction | Total |
|---|---|---|---|---|---|---|---|---|
| At 31.12.98 | | | | | | | | |
| Cost | 835,057 | 258,590 | 290,972 | 393,305 | 1,777,924 | 102,830 | 232,959 | 2,113,713 |
| Accumulated depreciation | (354,380) | (124,630) | (192,494) | (184,081) | (855,585) | (18,116) | - | (873,701) |
| Net book value at 31.12.98 | 480,677 | 133,960 | 98,478 | 209,224 | 922,339 | 84,714 | 232,959 | 1,240,012 |
| Depreciation | (23,907) | (7,590) | (16,508) | (13,981) | (61,986) | (2,708) | - | (64,694) |
| Additions | 23,078 | 15,028 | 47,379 | 28,691 | 114,176 | 8,520 | 12,652 | 135,348 |
| Acquisition of subsidiary | - | - | 2,637 | 4,343 | 6,980 | - | 4,481 | 11,461 |
| Disposals | (73) | (853) | (4,062) | (6,279) | (11,267) | (11,507) | (3,773) | (26,547) |
| Impairment charge | - | - | - | - | - | - | (20,523) | (20,523) |
| Net book value at 31.12.99 | 479,775 | 140,545 | 127,924 | 221,998 | 970,242 | 79,019 | 225,796 | 1,275,057 |
| At 31.12.99 | | | | | | | | |
| Cost | 857,469 | 273,207 | 333,922 | 417,573 | 1,882,171 | 97,511 | 225,796 | 2,205,478 |
| Accumulated depreciation | (377,694) | (132,662) | (205,998) | (195,575) | (911,929) | (18,492) | - | (930,421) |
| Net book value at 31.12.99 | 479,775 | 140,545 | 127,924 | 221,998 | 970,242 | 79,019 | 225,796 | 1,275,057 |
| Depreciation | (25,275) | (8,237) | (20,006) | (14,815) | (68,333) | (2,773) | - | (71,106) |
| Additions | 14,337 | 11,307 | 39,421 | 35,341 | 100,406 | 10,441 | 8,308 | 119,155 |
| Disposals | (3) | (745) | (2,139) | (2,835) | (5,722) | (8,139) | (2,950) | (16,811) |
| Impairment charge | - | - | - | - | - | - | (24,994) | (24,994) |
| Net book value at 31.12.00 | 468,834 | 142,870 | 145,200 | 239,689 | 996,593 | 78,548 | 206,160 | 1,281,301 |
| At 31.12.00 | | | | | | | | |
| Cost | 871,843 | 283,511 | 370,047 | 449,347 | 1,974,748 | 98,244 | 206,160 | 2,279,152 |
| Accumulated depreciation | (403,009) | (140,641) | (224,847) | (209,658) | (978,155) | (19,696) | - | (997,851) |
| Net book value at 31.12.00 | 468,834 | 142,870 | 145,200 | 239,689 | 996,593 | 78,548 | 206,160 | 1,281,301 |

Assets under construction are presented net of a provision for impairment of RR 70,148 and RR 51,749 at 31 December 2000 and 1999, respectively. Additions of assets under construction are stated net of transfers to other property, plant and equipment categories.

Included in additions above is capitalised interest of RR 15,737 and RR 11,184 for the years ended 31 December 2000 and 1999, respectively. A capitalisation rate of 8.2% (1999 - 8.1%) was used representing the average actual borrowing cost of the loans used to finance the projects.

Included in the property, plant and equipment above are fully depreciated assets which are still in service of RR 232,106 and RR 230,800 at 31 December 2000 and 1999, respectively.

Depreciation disclosed above includes RR 762 and RR 847 for the years ended 31 December 2000 and 1999, respectively, which is considered a cost of self constructed assets and thus capitalised rather than expensed in the consolidated statement of operations. Similarly, RR 9,287 and RR 9,264 of depreciation for the years ended 31 December 2000 and 1999, respectively, is capitalised as a component of gas inventories and expensed in the consolidated statement of operations when the gas is sold.

The Group’s gas fields are operated under licenses granted by federal and local authorities. These licenses to develop and extract hydrocarbons expire between 2013 and 2016, however they may be extended. Management intends to extend the existing licenses on properties expected to produce hydrocarbons subsequent to their current expiration dates.

**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

## 11 INVESTMENTS

| Notes | | 31 December 2000 | 31 December 1999 |
|---|---|---|---|
| | Associated undertakings: | | |
| 25 | EuRoPolGaz s.a. | 23,775 | 22,993 |
| 25 | WINGAS GmbH | 17,212 | 20,040 |
| | Other | 9,986 | 6,778 |
| | | 50,973 | 49,811 |
| | Other investments: | | |
| | South Pars (development of an oil and gas field in Iran) | 11,642 | 4,613 |
| | Ukrainian Ministry of Finance bonds | - | 5,168 |
| | Other | 9,311 | 9,411 |
| | | 20,953 | 19,192 |
| | Total investments | 71,926 | 69,003 |

Associated undertakings and other investments are presented net of provision for impairment of RR 6,012 and RR 16,211, respectively, at 31 December 2000 and RR 5,025 and RR 23,242, respectively, at 31 December 1999.

**Principal associated undertakings**

| Associated undertaking | Country | Nature of operations | % of share capital held 31 December 2000 | % of share capital held 31 December 1999 |
|---|---|---|---|---|
| Altalanos Ertekforgalmi Bank Rt (“AEB”) | Hungary | Banking | 26 | 43 |
| EuRoPolGaz s.a. | Poland | Gas distribution and transportation | 49 | 49 |
| Gasum Oy | Finland | Gas distribution and transportation | 25 | 25 |
| Gazsnabtransit | Moldova | Gas distribution and transportation | 50 | 50 |
| Latvias Gaze | Latvia | Gas distribution and transportation | 25 | 16 |
| Overgaz Inc. | Bulgaria | Gas distribution | 50 | 50 |
| Panrusgaz | Hungary | Gas distribution | 33 | 35 |
| Prometheus Gas | Greece | Construction | 50 | 50 |
| Slovrusgaz | Slovakia | Gas distribution | 50 | - |
| Stella Vitae | Lithuania | Gas distribution and transportation | 30 | 30 |
| Turusgaz | Turkey | Gas distribution | 45 | 45 |
| WINGAS GmbH | Germany | Gas distribution and transportation | 35 | 35 |

During 1999, the Group was the principal shareholder in AEB and executed effective control over the Bank. In April 2000, a portion of the controlling interest the Group held in AEB was sold, leaving the Group with a 26% interest in AEB (see Note 25). Thus, due to the inability of the Group to control the operations of AEB from April 2000, AEB was accounted for under the equity method.

Dividends received from associated undertakings were RR 1,156 and RR 1,086 for the years ended 31 December 2000 and 1999, respectively.

**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

## 11 INVESTMENTS (continued)

### Other investments

At 31 December 1999, other investments included Ukrainian Ministry of Finance bonds held by National Reserve Bank with a carrying value of RR 5,168. These bonds were issued by the Ukrainian government in settlement of gas sales made to the Ukraine in 1994. The bonds were denominated in US dollars, carry an interest rate of 8.5% per annum and were redeemable between June 1999 and March 2006. At 31 December 1999 the Group had pledged Ukrainian bonds against certain short-term borrowings. In April 2000, the Group was elected to participate in a restructuring program and exchanged these bonds for US dollar denominated eurobonds issued by the Cabinet of Ministers of Ukraine bearing interest at 11.0% per annum. The new eurobonds mature between March 2001 and March 2007 with repayment of principal to be made in semi-annual installments, commencing in March 2001. Upon exchange of the original bonds the Group transferred the eurobonds to marketable securities at their estimated fair value (see Note 7).

At 31 December 2000 and 1999, the Group had a 14.3% interest in ZAO Media-Most. This interest in ZAO Media-Most was acquired in November 1999 via the settlement of a ZAO Media-Most debt to the Group. ZAO Media-Most is one of the largest publishing and entertainment companies operating in the Russian Federation.

At 31 December 1999, the Group held collateral representing an interest of 17.1% in ZAO Media-Most in exchange for providing certain loan guarantees on behalf of ZAO Media-Most. During 2000, ZAO Media-Most defaulted on its payment obligation and the Group fulfilled its obligations.

In November 2000, the Group signed agreements with ZAO Media-Most to change the collateral under the guarantees, both those fulfilled in 2000 and those outstanding at 31 December 2000 (see Note 26) to interests in NTV and other ZAO Media-Most operating companies. The Group then exercised its rights to take ownership of interests in ZAO Media-Most operating companies and a further interest in NTV.

At 31 December 2000, the Group held a 46% interest in NTV and 25% plus one share interest in various other ZAO Media-Most operating companies.

Outstanding guarantees of the Group made on behalf of ZAO Media-Most as at 31 December 2000 amounted to RR 7,363 with collateral in the form of interests in NTV and other ZAO Media-Most operating companies (see Note 26).

The Group is currently in negotiations to sell its investments in NTV and other ZAO Media-Most operating companies.

## 12 ACCOUNTS PAYABLE AND ACCRUED CHARGES

| | 31 December | |
|---|---|---|
| | **2000** | **1999** |
| Trade payables | 28,342 | 25,314 |
| Accounts payable in respect of acquisition of property, plant and equipment | 22,842 | 18,647 |
| Advances received | 1,736 | 1,733 |
| Accruals and deferred income | 1,094 | 804 |
| Other payables | 31,199 | 29,279 |
| | 85,213 | 75,777 |

Other payables includes RR 13,837 and RR 11,609 related to the operations of the Group's banking subsidiaries at 31 December 2000 and 1999, respectively. These balances mainly represent amounts due to the banks' customers with terms at commercial rates ranging from 3.6% to 11.6% per annum at 31 December 2000 and 7.2% to 10.0 % per annum at 31 December 1999.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)

## 13 TAXES PAYABLE

| | 31 December 2000 | 31 December 1999 |
|---|---|---|
| Excise tax (including deferred amounts of RR 20,317 and RR 25,956 at 31 December 2000 and 1999, respectively) | 33,991 | 46,890 |
| Tax penalties and interest | 33,544 | 36,403 |
| VAT, net (including deferred amounts of RR 3,409 and RR 13,847 at 31 December 2000 and 1999, respectively) | 21,650 | 34,861 |
| Road use and housing fund taxes (including deferred amounts of RR 2,477 and RR 5,557 at 31 December 2000 and 1999, respectively) | 10,628 | 19,256 |
| Profit tax | 8,259 | 9,302 |
| Mineral use and mineral restoration taxes (including deferred amounts of RR 1,704 and RR 1,343 at 31 December 2000 and 1999, respectively) | 7,960 | 6,051 |
| Pension fund and other social taxes | 2,308 | 1,450 |
| Other taxes | 4,996 | 7,389 |
| | 123,336 | 161,602 |
| Less: long term portion of restructured tax liabilities | (8,853) | - |
| | 114,483 | 161,602 |

The deferred amounts included in the taxes above are payable upon settlement of the related trade receivable balances. Substantially all accrued taxes above, excluding the deferred amounts and restructured liability (see below) incur interest at a rate of 1/300 of the refinancing rate of the Central Bank of the Russian Federation (the refinancing rate was last set at 25.0% per annum on 4 November 2000). Interest does not accrue on tax penalties and interest.

During 2000 the Group negotiated the restructuring of its tax liabilities in accordance with current tax regulations.

The long-term portion of the restructured tax and penalties liability has the following maturity profile:

| | 31 December 2000 |
|---|---|
| Due for repayment: | |
| Between one and two years | 2,275 |
| Between two and five years | 6,810 |
| After five years | 14,858 |
| | 23,943 |
| Less: discount recorded upon restructured taxes | (15,090) |
| | 8,853 |

The above balances have been discounted using the marginal RR rate of borrowings of the Group of 21.2% in order to present the debt at its fair value.

**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

## 14 SHORT-TERM LOANS AND CURRENT PORTION OF LONG-TERM BORROWINGS

| | 31 December 2000 | 31 December 1999 |
|---|---|---|
| Short-term loans | 122,759 | 83,131 |
| Current portion of long-term borrowings (see Note 15) | 46,706 | 44,153 |
| | 169,465 | 127,284 |

Short-term borrowings include RR denominated bank borrowings with interest rates varying from 17% to 37% for the year ended 31 December 2000 and from 35% to 40% for the year ended 31 December 1999.

Short-term borrowings also include RR 57,570 and RR 24,999 of short-term promissory notes at 31 December 2000 and 1999, respectively.

## 15 LONG-TERM BORROWINGS

| | Currency | Due | 31 December 2000 | 31 December 1999 |
|---|---|---|---|---|
| Long-term borrowings payable to: | | | | |
| A French banking consortium | US dollar | 2000-2005 | 79,866 | 97,476 |
| A German banking consortium | US dollar | 2000-2005 | 60,396 | 83,016 |
| An Italian banking consortium | US dollar | 2000-2007 | 32,253 | 42,933 |
| A German consortium | Euro | 2000-2009 | 17,913 | 24,407 |
| An International banking consortium | Deutsche mark | 2000-2005 | 12,678 | 16,556 |
| A German banking consortium | Euro | 2000-2009 | 9,872 | 14,091 |
| A German bank consortium | Euro | 2000-2002 | 6,775 | 10,121 |
| A Cyprus banking consortium | US dollar | 2000-2005 | 7,616 | 8,714 |
| Other long-term borrowings | | | 30,389 | 27,226 |
| Total long-term borrowings | | | 257,758 | 324,540 |
| Less: current portion of long-term borrowings | | | (46,706) | (44,153) |
| | | | 211,052 | 280,387 |

| Due for repayment: | 31 December 2000 | 31 December 1999 |
|---|---|---|
| Between one and two years | 54,820 | 62,773 |
| Between two and five years | 128,997 | 163,007 |
| After five years | 27,235 | 54,607 |
| | 211,052 | 280,387 |

Interest rates on the borrowings are variable and linked, mainly, to LIBOR, except for interest on the Italian borrowing, which is fixed at 5.7%. The annual interest rates on US dollar denominated borrowings range from 5.7% to 10.7% per annum at 31 December 2000 and from 5.7% to 10.5% per annum at 31 December 1999. The annual interest rates on Euro denominated borrowings range from 3.8% to 6.1% per annum at 31 December 2000. The annual interest rates on DM denominated borrowings range from 4.8% to 8.4% per annum at 31 December 2000 and from 3.2% to 8.0% per annum at 31 December 1999. Substantially all borrowings are secured by contractual obligations to sell gas in Western Europe and the associated cash flows (see Note 6). The amount payable to an international banking consortium is also secured by certain assets of ZGG-Zarubezhgaz Erdgashandels GmbH, a wholly owned subsidiary.

**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

## 15 LONG-TERM BORROWINGS (continued)

The fair value of the fixed rate Italian loan is RR 28,352 and RR 34,141 at 31 December 2000 and 1999, respectively. The carrying amounts of variable rate loans approximate fair value.

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

Long-term borrowings include RR 2,704 and RR 3,105 at 31 December 2000 and 1999, respectively, of coupon non-documentary bearer bonds issued by OAO Gazprom in 1999. The issue amounted to 3.0 million bonds, each with a nominal value of RR 1,000 and a due date of 15 April 2003. During the year 2000, the Group repurchased 481,187 bonds. The total amount recorded for the bonds excludes the discount related to future periods.

At 31 December 2000 long-term borrowings also include RR 6,187 of promissory notes with due dates beyond 2001.

The US dollar to RR exchange rates were 28.16 and 27.00 at 31 December 2000 and 1999, respectively. The Euro to RR exchange rates were 26.14 and 27.32 at 31 December 2000 and 1999, respectively. The DM to RR exchange rates were 13.37 and 13.92 at 31 December 2000 and 1999, respectively.

## 16 PROFIT TAX

Profit tax expense in the consolidated statement of operations is stated net of RR 820 and RR 125 of tax attributable to gains arising on treasury share transactions for the year ended 31 December 2000 and 1999, respectively (see Note 4).

The Group accrued profit tax at rates of 30.0% and 38.0% on profits from non-banking and banking activities, respectively, computed in accordance with the Russian tax legislation. Starting from 1 January 2001 the profit tax rates were increased effectively to 35.0% and 43.0%, respectively. IAS profit before profit tax for financial reporting purposes is reconciled to profit tax expense as follows:

| | **Year ended 31 December** | |
|---|---|---|
| | **2000** | **1999** |
| IAS profit before profit tax | 154,178 | 23,151 |
| Theoretical tax charge at a statutory rate thereon | (46,254) | (6,946) |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| Non-temporary element of monetary gains and losses | (45,496) | (95,640) |
| Non-deductible expenses | (39,685) | (40,062) |
| Statutory tax concessions | 19,748 | 13,032 |
| Other non-temporary differences | (5,334) | 8,127 |
| Inflation effect on deferred profit tax balance at beginning of year | 5,261 | 2,806 |
| Effect of increase in taxable base due to statutory revaluation | 231,237 | - |
| Effect of change in tax rate | 14,007 | 513 |
| Profit tax benefit (expense) | 133,484 | (118,170) |

The non-temporary impact of monetary gains and losses reflects the effect on the theoretical tax charge of inflation with respect to non-monetary items of a non-temporary nature (primarily social assets and equity).

Differences between Russian statutory taxation regulations and IAS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 35.0% or 43.0% as applicable.

**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

## 16 PROFIT TAX (continued)

| | 31 December 2000 | Change in tax rate | Differences recognition and reversals | 31 December 1999 |
|---|---|---|---|---|
| **Tax effects of taxable temporary differences:** | | | | |
| Accounts receivable | (26,270) | (3,753) | (8,533) | (13,984) |
| Inventories | (3,491) | (499) | 1,993 | (4,985) |
| Investments | (791) | (113) | (363) | (315) |
| **Tax effects of deductible temporary differences:** | | | | |
| Property, plant and equipment | 125,074 | 17,868 | 199,574 | (92,368) |
| Provision for doubtful accounts | 3,526 | 504 | 1,088 | 1,934 |
| Tax losses carryforward | - | - | (5,061) | 5,061 |
| **Total net deferred tax asset (liability)** | 98,048 | 14,007 | 188,698 | (104,657) |

Deferred tax assets and liabilities arise mainly from differences in the taxable and financial reporting bases of property, plant and equipment. These differences are due to the fact that a significant proportion of the tax base is based upon independent appraisals while the financial reporting base is historical cost restated for changes in the general purchasing power of the RR (see Note 3).

At 31 December 1999 the Group recognised a deferred tax liability of RR 104,657, mainly as the tax base was lower than the financial reporting base for property, plant and equipment. The difference was due to the fact that a significant portion of the tax basis is based upon independent appraisal which was last recognised at 1 January 1998. At 31 December 2000 the Group has recognised a deferred tax asset of RR 231,237; this asset arises due to the temporary differences resulting from a revaluation of the carrying value of property, plant and equipment recognised in the Russian financial statements at 1 January 2001. The result of the revaluation is allowable for profit tax purposes under Russian statutory taxation regulations, effectively increasing the taxable base of property, plant and equipment.

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 36,675 and RR 14,702 at 31 December 2000 and 31 December 1999, respectively. A deferred tax liability on these temporary differences was not recognised because management controls the timing of the reversal of the temporary differences and believes that they will not reverse in the foreseeable future.

## 17 PROVISIONS FOR LIABILITIES AND CHARGES

| Notes | | 31 December 2000 | 31 December 1999 |
|---|---|---|---|
| 27 | Provision for losses on derivatives | 11,555 | 16,648 |
| 26 | Provision for guarantees | 8,712 | 16,386 |
| | Provision for environmental liabilities | 4,470 | 4,284 |
| | Other | 8,911 | 6,802 |
| | | 33,648 | 44,120 |
| | Less: current portion of provisions for liabilities and charges | (8,712) | (6,762) |
| | | 24,936 | 37,358 |

**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

## 18 SHAREHOLDERS' EQUITY

### Share capital

Share capital authorised, issued and paid in totaled RR 237,740 at 31 December 2000 and 31 December 1999 and consists of 23.7 billion ordinary shares, each with a nominal value of RR 5.

### Treasury shares

At 31 December 2000 and 31 December 1999, subsidiaries of OAO Gazprom held 2,684 million and 2,614 million, respectively, of the ordinary shares of OAO Gazprom.

### Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement to the equivalent purchasing power of the Rouble at 31 December 2000, and cumulative translation differences of RR 15,057 and RR 14,430 arising on the retranslating of the net assets of foreign subsidiaries and associated undertakings at 31 December 2000 and 1999, respectively.

Other reserves include a statutory fund for social assets, created at the time of privatisation in accordance with Russian legislation. The Group is negotiating to return certain of these assets to governmental authorities, though this process is expected to be protracted. Social assets with a net book value of RR 5,420 and RR 4,520 have been transferred to governmental authorities during the years ended 31 December 2000 and 1999, respectively. These transactions have been recorded as a charge to other reserves.

The statutory accounting reports of the parent company, OAO Gazprom, are the basis for profit distribution and other appropriations. The basis of distribution is defined by legislation as the current year net profit, as calculated in accordance with RAR. For 2000, the statutory profit for the parent company was RR 48,541. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

In 2000, the Group accrued interim dividends in the amount of RR 0.07 per share. In addition to the interim dividend, in 2001 the Board of Directors recommended payment of a final dividend for the year ended 31 December 2000 in the amount of RR 0.23 per share. Because this decision of the Group management was reached after the balance sheet date, the amount of final dividend proposed is not recognised in the consolidated balance sheet. Dividends accrued and paid for the year 1999, amounted of RR 0.1 per share.

## 19 SALES

| | Year ended 31 December | |
|---|---|---|
| | **2000** | **1999** |
| Gas sales (including excise tax, net of VAT) to customers in: | | |
| Russian Federation | 86,245 | 91,700 |
| Former Soviet Union (excluding Russian Federation) | 58,495 | 64,337 |
| Europe | 398,333 | 255,436 |
| Gross sales of gas | 543,073 | 411,473 |
| Excise tax | (89,122) | (71,631) |
| Net sales of gas | 453,951 | 339,842 |
| Sales of gas condensate and other oil products (net of sales taxes) | 29,605 | 15,918 |
| Gas transportation sales | 26,726 | 20,902 |
| Other revenues | 29,627 | 23,548 |
| | 539,909 | 400,210 |

**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

## 19 SALES (continued)

Commencing in 1999 the Group has been participating in the creation of regional companies involved in the distribution of gas in Russia. The interest of the Group in the majority of such companies amounts to less than 20% of their respective share capital.

Gas sales (net of VAT and excise tax) to customers in Russia include sales made to the regional companies of 141 billion cubic meters (bcm) and 43 bcm, or RR 41,354 and RR 11,933 for 2000 and 1999, respectively. Sales are made to the regional companies at prices marginally below regulated prices set for sales to final customers in Russia.

Transportation charges are provided at rates established by the Federal Energy Commission.

Gas transportation sales (net of VAT and excise tax) are primarily comprised of sales to companies of the Itera Group totaling RR 21,748 (71 bcm) and RR 15,366 (57 bcm) for the years ended 31 December 2000 and 1999, respectively. Trade receivables in respect of gas transportation services supplied to Itera amounted to RR 10,818 and RR 3,377 at 31 December 2000 and 1999, respectively. Itera Group is a producer and distributor of gas in the Russian Federation and the former Soviet Union.

## 20 OPERATING EXPENSES

| | **Year ended 31 December** | |
|---|---|---|
| | **2000** | **1999** |
| External transit costs | 78,062 | 77,327 |
| Depreciation | 70,321 | 63,057 |
| Staff costs | 43,454 | 39,490 |
| Taxes other than on income | 41,066 | 35,631 |
| Provision for doubtful accounts and debts written off | 28,431 | 15,819 |
| Materials | 31,515 | 21,864 |
| Provision for impairment of assets under construction | 24,994 | 20,523 |
| Provision for impairment and write-off of other long-term assets | 18,995 | 16,575 |
| Disposal of property, plant and equipment | 10,402 | 10,570 |
| Gas purchases | 8,873 | 1,875 |
| Electricity | 8,095 | 7,844 |
| Provision for inventory obsolescence | 6,014 | 2,185 |
| Research and development | 4,265 | 2,747 |
| Provision for impairment of investments | 1,969 | 8,570 |
| Goods for resale | 1,670 | 794 |
| Provisions for guarantees and other charges | 969 | 8,690 |
| Tax penalties | 260 | 425 |
| Derivative gains | (2,832) | (4,015) |
| Other | 32,335 | 42,240 |
| | 408,858 | 372,211 |

Operating expenses include RR 22,464 and RR 18,847 attributable to maintenance and repairs for the years ended 31 December 2000 and 1999, respectively.

Gas purchases and gas in storage (see Note 9) increased significantly in 2000, principally due to the purchase of 9 bcm of Turkmenistan gas from Itera LLC for RR 12,790.

**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

## 20 OPERATING EXPENSES (continued)

Taxes other than on income consist of:

| | Year ended 31 December | |
|---|---|---|
| | **2000** | **1999** |
| Road users and housing fund taxes | 21,165 | 19,221 |
| Mineral use tax (royalty) | 7,551 | 5,730 |
| Property tax | 4,345 | 4,067 |
| Mineral restoration tax | 3,793 | 2,978 |
| Other taxes | 4,212 | 3,635 |
| | 41,066 | 35,631 |

Taxes other than on income included in operating expenses are computed as follows:

- Road users and housing fund taxes – are charged on sales in Russia and vary by region and locality but generally in 2000 did not exceed 2.5% and 1.5%, respectively of sales in the respective region; from 1 January 2001 road use tax is 1 % of sales, housing tax is abolished.

- Mineral use tax is imposed at rates ranging from 6.0% to 16.0% of the sales value of gas and hydrocarbons produced. The actual rates of the tax are dictated in field licenses and are based on various factors;

- Property tax is imposed at a maximum rate of 2.0% on the average annual net book value of fixed assets, intangible assets and inventory. Legislation provides for the exclusion of trunk pipelines from the taxable base; and

- Mineral restoration tax is imposed at the rate of 10.0% of the sales value of gas and hydrocarbons sold by the production subsidiaries. Under current legislation, up to 100.0% of mineral restoration tax assessments may be offset by a sum equal to the value of certain exploration works performed and paid for by the Group. In 2000 and 1999, the Group recovered 39.9% and 34.0% of mineral restoration tax assessments, respectively.

All taxes and rates discussed above are calculated based on amounts recorded in accordance with Russian statutory accounting regulations.

**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

## 21 RECONCILIATION OF RAR PROFIT TO IAS NET PROFIT (LOSS)

| | Year ended 31 December 2000 | 1999 |
|---|---|---|
| RAR profit per statutory accounts | 60,748 | 39,166 |
| Effects of IAS adjustments: | | |
| Deferred tax | 202,705 | (88,663) |
| Provision for doubtful accounts | 52,929 | (15,819) |
| Monetary gain | 40,892 | 61,558 |
| Discount recorded upon restructured taxes | 15,090 | - |
| Gain on taxation | 3,751 | 1,953 |
| Additional gain recognised on unsettled derivatives | 2,832 | 4,015 |
| Provisions other than for doubtful accounts | (59,922) | (49,628) |
| Net effect on indexation of revenues and costs | (23,250) | (30,501) |
| Expenses charged directly to equity under RAR | (10,983) | (20,939) |
| Elimination of gain from sale of treasury shares | (1,912) | (292) |
| Reversal of exchange difference on accounts receivable written off for IAS purposes in previous periods | (321) | (5,221) |
| Reversal of losses related to assets valuation | - | 8,190 |
| Other | 3,587 | 942 |
| IAS net profit (loss) | 286,146 | (95,239) |

## 22 PROFIT (LOSS) PER SHARE

Basic profit (loss) per share has been calculated by dividing the net profit (loss) for the year by the weighted average number of shares outstanding during the year. Diluted profit (loss) per share is the same as basic profit (loss) per share.

There were 20.9 billion and 21.1 billion weighted average shares outstanding for the years ended 31 December 2000 and 1999, respectively.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)

## 23 NET CASH PROVIDED BY OPERATING ACTIVITIES

| | Year ended 31 December | |
|---|---|---|
| | **2000** | **1999** |
| Profit before profit tax | 154,178 | 23,151 |
| **Adjustments to net profit before profit tax** | | |
| Depreciation and depletion | 70,321 | 63,057 |
| Impairment provisions for investments, other long-term assets, property, plant and equipment and inventories | 51,971 | 47,855 |
| Net unrealised foreign exchange losses | 5,941 | 42,185 |
| Increase in provision for doubtful accounts | 28,431 | 15,819 |
| Interest expense | 28,528 | 17,717 |
| Discount recorded upon restructured taxes | (15,090) | - |
| Loss on disposal of property, plant and equipment | 10,402 | 10,570 |
| Monetary effects on non-operating balances | (60,236) | (87,471) |
| Interest income | (11,412) | (12,970) |
| Decrease in provisions for liabilities and charges | (10,472) | (7,772) |
| Net decrease (increase) in long-term assets | 9,090 | (1,180) |
| Total effect of adjustments | 107,474 | 87,810 |
| **Changes in working capital** | | |
| (Increase) decrease in accounts receivable and prepayments | (32,565) | 11,468 |
| (Increase) decrease in inventories | (11,856) | 8,350 |
| Decrease in other current assets | 638 | 3,247 |
| Increase (decrease) in accounts payable and accrued charges, excluding interest, dividends and capital construction | 15,280 | (12,739) |
| Decrease in taxes payable (other than profit tax) | (21,435) | (7,094) |
| (Increase) in marketable securities | (2,181) | (4,762) |
| Non-cash additions to property, plant and equipment | (47,605) | (56,448) |
| Non-cash additions to investments | (5,657) | (11,662) |
| Total effect of working capital changes | (105,381) | (69,640) |
| Profit tax paid | (67,792) | (24,055) |
| Net cash provided by operating activities | 88,479 | 17,266 |

**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

## 24 PRINCIPAL SUBSIDIARY UNDERTAKINGS

**Subsidiary undertakings, 100% owned**

| | | |
|---|---|---|
| Astrakhangazprom | Gazexport | Permtransgaz |
| Bashtransgaz | Gazsviaz | Samaratransgaz |
| Burgaz | Zarubezhgaz Erdgashandel GmbH (ZGG) | Severgazprom |
| VNIIgaz | Informgaz | Servicegazprom |
| Volgogradtransgaz | IRTs Gazprom | Liquified gas |
| Volgotransgaz | Kavkaztransgaz | Surgutgazprom |
| Gazkomplektimpex | Kaspygazprom | Tattransgaz |
| Gaznadzor | Kubangazprom | Tomsktransgaz |
| Gazobezopasnost | Lentransgaz | TyumenNIIgiprogaz |
| Gazpromavia | Mezhregiongaz | Tyumentransgaz |
| Gazprominvestholding | Mostransgaz | Uraltransgaz |
| Gazprom-Media | Nadymgazprom | Urengoygazprom |
| Gazprom Finance B.V. | Nadymstroygazdobytcha | Ulianovskgazservice |
| Gaztorgpromstroy | Novourengoysky GCC | Yugtransgaz |
| Gazflot | Noyabrskgazdobycha | Yamalgazinvest |
| Gazfund | Orenburggazprom | Yamburggazdobycha |

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

**Other subsidiary undertakings**

| | Percent of share capital held at 31 December | |
|---|---|---|
| | **2000** | **1999** |
| Gazavtomatika | 51 | 51 |
| Gazenergoservice | 51 | 51 |
| Gazprombank | 97 | 93 |
| Gazsibcontract | 51 | 51 |
| Kostromatrubinvest | 99 | 94 |
| Lebedinsky GOK | 57 | 57 |
| National Reserve Bank | 40 | 40 |
| Spetsgazavtotrans | 51 | 51 |
| Volgogradneftemash | 51 | 51 |
| Vostokgazprom | 63 | 70 |
| Zapsibgazprom | 34 | 51 |

**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

## 24 PRINCIPAL SUBSIDIARY UNDERTAKINGS (continued)

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

**Minority interest**

| | Year ended 31 December | |
|---|---|---|
| | **2000** | **1999** |
| Minority interest at the beginning of the reporting period | 7,422 | 5,692 |
| Minority interest share of net profit of subsidiary undertakings | 1,516 | 220 |
| Change in minority interest as a result of (disposal) acquisition | (223) | 1,510 |
| Minority interest at the end of reporting period | 8,715 | 7,422 |

## 25 RELATED PARTIES

Related parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

**Government**

The Government of the Russian Federation, the principal shareholder of the Group, owns approximately 38.37% of the issued shares of the Group. Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

As a condition of privatisation in 1992, the Government imposed an obligation on the Group to provide an uninterrupted supply of gas to customers in the Russian Federation at government controlled prices.

**Directors' remuneration**

In 2000 the Company paid to members of the Board of Directors and Management Committee remuneration (salary and bonuses) for the total amount of approximately RR 56. The remuneration of members of the Board of Directors is subject to approval by the General shareholders meeting. Compensation paid to members of the Management Committee is determined by the terms of annual employment contracts.

**Other**

Included within other long-term assets are USD denominated receivables from EuRoPolGaz s.a. in the amount of RR 12,123 and RR 14,730 at 31 December 2000 and 1999, respectively. Included within associated undertakings (see Note 11) is an interest-bearing loan receivable from EuRoPolGaz s.a., in the amount of RR 23,443 and RR 22,915 at 31 December 2000 and 1999, respectively, issued by Gazprombank, a subsidiary of the Group.

Also included within associated undertakings (see Note 11) is an interest-bearing loan receivable from WINGAS GmbH, in the amount of RR 12,960 and RR 16,215 at 31 December 2000 and 1999, respectively. In determining the interest rates for related party financing, the Group follows a pricing policy which requires positive interest margins to be earned on all lendings to related parties.

Included within accounts receivable (see Note 8) are accounts receivable from Group associates (excluding EuRoPolGaz s.a.) in the amount of RR 16,991 and RR 18,599 as at 31 December 2000 and 31 December 1999 respectively.

## 25 RELATED PARTIES (continued)

During 2000 and 1999 the Group supplied gas to its associates in the amount of RR 36,487 and RR 23,305, respectively.

Gas is sold to associates, except for that sold to ZAO Gazsnabtransit of Moldova, on the basis of long-term contracts, at market prices based on world oil and gas prices. Gas prices per thousand cubic meters (“tcm”) for such sales ranged from USD 64 to USD 133 in 2000 and from USD 50 to USD 84 in 1999. Gas is sold to ZAO Gazsnabtransit based on annual contracts with fixed prices. Prices of gas per tcm sold to Moldova amounted to USD 80 and USD 60 in 2000 and 1999, respectively.

Amounts due from ZAO Gazsnabtransit at the reporting date are presented net of a bad debt provision of RR 11,867.

In addition, the Group purchased gas transportation services from certain of the associated undertakings, principally EuRoPolGaz s.a., which amounted to RR 6,138 and RR 483 for 2000 and 1999, respectively. The cost of these services was determined based on prices of gas sold to these companies.

In the normal course of business, the Group enters into transactions with OAO Stroytransgaz for the construction of pipelines in the Russian Federation on the basis of the results of tenders. During 2000 and 1999 certain representatives of the Group Board of Directors and members of their families owned significant shareholdings in OAO Stroytransgaz.

OAO Stroytransgaz rendered constructions services for the Group in the amounts of RR 23,684 and RR 20,003 for the years ended 31 December 2000 and 31 December 1999, respectively. As at 31 December 2000 and 31 December 1999, the Group had advances and receivables due from OAO Stroytransgaz in the amounts of RR 1,696 and RR 692, respectively. As at 31 December 2000 and 31 December 1999, the Group had accounts payable to OAO Stroytransgaz in respect of construction of RR 9,111 and RR 4,946 respectively. As at 31 December 2000 and 31 December 1999, Gazprombank, the Group’s principal banking subsidiary, had loans receivable from OAO Stroytransgaz of RR 1,026 and RR 193, respectively. Included within other long-term assets is a receivable due from OAO Stroytransgaz in connection with finance arrangements for construction for the Group undertaken by OAO Stroytransgaz in the amounts of RR 5,844 and RR 8,593 at 31 December 2000 and 1999, respectively.

During 2000 and 1999 certain members of the families of certain members of the Board of Directors of the Company owned significant interests in OOO Interprokom.

OOO Interprokom acts as an agent for the Group in the acquisition of equipment and is remunerated for those services based on a fixed commission percentage. OOO Interprokom acted as an agent in the Group’s acquisition of RR 4,614 and RR 3,570 of equipment in the years ended 31 December 2000 and 1999, respectively. As at 31 December 2000, the Group had advances and receivables due from OOO Interprokom in the amount of RR 2,449. As at 31 December 1999 the Group had payables to OOO Interprokom in the amount of RR 2,615. Commission paid to OOO Interprokom amounted to RR 61 and RR 23 for the years ended 31 December 2000 and 1999, respectively.

Gazprombank, the Group’s principal banking subsidiary, had outstanding import letters of credit issued on behalf of OOO Interprokom and sub-contractors of OOO Interprokom in the amount of RR 8,105 and RR 4,675 at 31 December 2000 and 1999, respectively. These import letters of credit are issued to third party suppliers in connection with the purchase of equipment by OOO Interprokom on behalf of the Group.

During 2000, a member of the Council of Gazprombank acquired from that bank an 8.5% interest in AEB for RR 214. AEB is an associated undertaking of the Group at 31 December 2000 (see Note 11). A loss of RR 175 was recognized under IAS on the disposal. This loss was the result of a decrease in the Group’s share in the net assets of AEB and translation differences recognised on the disposed shares.

## 26 COMMITMENTS AND CONTINGENT LIABILITIES

### Operating environment

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

### Legal proceedings

At 31 December 2000, RR 5,400 of assets of one of the Group's banking subsidiaries were the subject of a legal restraint in connection with a claim arising from derivative transactions with a foreign counterparty. At 31 December 2000, the Group had provided RR 3,368 against the claim (see Note 17).

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

### Taxation

Tax legislation in the Russian Federation is subject to varying interpretations and frequent changes. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest, which can be significant. The Group's tax records remain open to review by the tax and customs authorities with respect to tax liabilities for three years.

### Group changes

The Group is continuing to undergo significant restructuring and reform initiatives and the future direction and effects of such reforms are the subject of political considerations. Potential reforms in tariff setting policies, settlements of outstanding debts by governmental entities, and other government initiatives could each have a significant, but undeterminable, effect on enterprises operating in the Group.

(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)

## 26 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

### Environmental matters

The Group has operated in the gas exploration, extraction and transportation industry in the Russian Federation for many years. The normal activities of the Group have probably resulted in damage to the environment. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Expenditures that extend the life of the related property or mitigate or prevent future environmental contamination are capitalised. Potential liabilities which might arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation or regulation cannot be estimated, but could be material. In the current enforcement climate, under existing legislation, management believes that there are no significant liabilities for environmental damage, other than amounts that have been accrued in the consolidated financial statements.

### Social commitments

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

### Financial guarantees

The Group had outstanding issued guarantees to third parties in the amount of RR 49,950 and RR 55,340 (including guarantees denominated in USD of USD 1,659 million and USD 1,700 million) at 31 December 2000 and 1999, respectively.

Management believes that the Group will be required to settle certain of the obligations resulting from the guarantees. A provision of RR 8,712 and RR 16,386 has been recorded within provisions for liabilities and charges in respect of the guarantees issued at 31 December 2000 and 1999, respectively. It is anticipated that the majority of the provision will be used during 2001.

| | | 31 December | |
|---|---|---|---|
| Note | | **2000** | **1999** |
| | **Guarantees issued on behalf of :** | | |
| | Interconnector (UK) Limited | 28,160 | 32,435 |
| 11 | ZAO Media-Most | 7,363 | 15,344 |
| | Itera Group companies | 4,727 | 3,153 |
| | AK Sibur | 4,542 | - |
| | Other | 5,158 | 4,408 |
| | | 49,950 | 55,340 |
| 17 | Less: provisions for guarantees | (8,712) | (16,386) |
| | | 41,238 | 38,954 |

The guarantee issued on behalf of Interconnector (UK) Limited, in which the Group has a 10 % interest, was provided to a third party financing company in connection with lease obligations of Interconnector (UK) Limited.

## 26 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

### Capital commitments

In the normal course of business, the Group has entered into contracts for the purchase of property, plant and equipment. The Board has approved a capital expenditure budget for 2001 of RR 97,090, including RR 43,168 in respect of capital expenditures related to the Yamal project (that includes, in particular, construction of the Yamal-Europe pipeline).

### Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. At 31 December 2000, no loss is expected to result from these long-term commitments.

## 27 FINANCIAL INSTRUMENTS

### Financial risk management

The Group exports gas to European countries and attracts substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets (see Note 8) and liabilities (see Note 15) together with long-term sales commitments to European countries (see Note 26) give rise to foreign exchange exposure.

The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings (see Note 15).

The Group does not have formal hedging arrangements to mitigate interest rate risks or foreign exchange risks of the Group's operations. However, on a long-term perspective management believes that the Group is secured from financial risks; foreign currency denominated sales are secured by long-term contracts to supply gas to European countries and the revenue from such contracts is used to cover repayment of foreign currency denominated borrowings.

### Fair values

The fair value of financial instruments is determined with reference to various market information and other valuation methods as considered appropriate. At 31 December 2000 and 1999, the fair values of financial instruments other than long-term investments, trade receivables and trade payables are held by the Group did not materially differ from their carrying value. The historical cost carrying amount of receivables and payables subject to normal trade credit terms approximates their fair value. Management does not believe it is practicable to estimate the fair value of long-term investments, other trade receivables and trade payables. These financial instruments are not traded at financial market and an objective estimate of fair value is not, therefore, available. Information on the fair values of off-balance sheet derivative instruments is included below.

### Credit risks

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

**(In millions of Russian Roubles in terms of the equivalent purchasing power of the Rouble at 31 December 2000, except as noted)**

## 27 FINANCIAL INSTRUMENTS (continued)

Cash is placed in financial institutions which are considered at time of deposit to have minimal risk of default.

### Off-balance sheet derivative instruments

At 31 December 2000, the Group had outstanding contracts with banks operating in the Russian Federation and foreign banks, whereby it had agreed to buy or sell Roubles in exchange for another currency at an exchange rate agreed at the date of the contract. Management believes that it is possible that contracts between banks operating in the Russian Federation may become void or other remedial measures may eventually become available. In the event the outstanding contracts are declared void or settled at an amount different than the amount stipulated in the contract, the losses and gains would be adjusted and the difference would be recognised in the consolidated statement of operations in the period that the settlement occurs.

Foreign exchange off-balance sheet financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. At 31 December 2000 the Group had outstanding contracts to purchase gold at the market price at the date of maturity and to purchase securities under contractual prices. The Group expects to settle these deals in the normal course of business. There were no outstanding contracts for precious metals or securities at 31 December 1999.

The nominal amounts for off-balance sheet financial instruments are not reflected in the consolidated balance sheet.

The following table provides an analysis of the principal or agreed amounts of contracts outstanding at the year-end and the associated losses or gains arising thereon. The table includes both the contracts for which the date of maturity has past due and no settlements had been completed as at 31 December 2000, and the contracts with maturity dates subsequent to 31 December 2000. The amounts included in the table are presented on a net basis after gross positions were grouped and netted off by counterparty.

| | **Domestic** | | | **Foreign** | | |
|---|---|---|---|---|---|---|
| | **Principal or agreed amount** | **Loss** | **Gain** | **Principal or agreed amount** | **Loss** | **Gain** |
| Deliverable forward currency | 3,838 | - | 164 | 396 | - | - |
| Deliverable forward gold deals | 938 | - | - | - | - | - |
| Deliverable forward securities deals | - | - | - | 302 | (1) | - |
| Index forward currency | 51,506 | (8,186) | 3,824 | - | - | - |
| Purchase of foreign currency option | 6,615 | - | 1,576 | - | - | - |
| Written foreign currency option | - | - | - | 8,530 | (3,368) | - |
| Total gross position | 62,897 | (8,186) | 5,564 | 9,228 | (3,369) | - |

## 27 FINANCIAL INSTRUMENTS (continued)

The economic conditions in the Russian Federation have had a significant adverse effect on the ability of many banks operating principally in the Russian Federation to fulfil their contractual obligations. Accordingly, management has not recorded the receivable and above noted gains based on the evaluation of the credit worthiness of the counterparties.

## 28 POST BALANCE SHEET EVENTS

In January 2001 OAO Gazprom purchased an interest of 51% in the voting shares of AK Sibur. AK Sibur is a leading Russian company selling oil, gas and chemical products. The consideration of RR 2,204 million was settled in a combination of cash, promissory notes of a subsidiary of the Group and shares in certain Group entities. The process of determining the fair values of assets and liabilities acquired has not yet been finalised and therefore, it is not practical to disclose this information. AK Sibur will be consolidated with effect from 1 January 2001.

In January 2001 the Board of Directors of OAO Gazprom initiated an investigation into the financial, property, commercial and operational relationships between OAO Gazprom and the Itera Group of companies. The accompanying notes to the consolidated financial reports do not reflect any results of this investigation, which is ongoing.

During 2000 OAO Gazprom signed agreements with a consortium of West European banks and with Japanese banks on obtaining loans to finance OAO Gazprom's interest in the Blue Stream project. The first tranche under these agreements of USD 117 was received in the second quarter of 2001. In addition, during the first quarter of 2001 a loan in the amount of Euro 250 million was provided by a consortium of West European banks.

**OAO GAZPROM**
**INVESTOR RELATIONS**

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