

OAQ VOSTOKGAZPROM
IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2006

ОАО ВОСТОКГАЗПРОМ

IFRS Consolidated Financial Statements for the year ended 31 December 2006

(in millions of Russian Roubles)

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Independent Auditors' Report

**To the Board of directors of
OAO Vostokgazprom**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OAO Vostokgazprom (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2006, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Limited

KPMG Limited
23 March 2007

ОАО VOSTOKGAZPROM
IFRS Consolidated Balance Sheet as of 31 December 2006
(in millions of Russian Roubles)

	Notes	31 December 2006	31 December 2005
Assets			
Non-current assets			
Property, plant and equipment	8	12,000	11,838
Exploration and evaluation assets	9	90	54
Deferred income tax assets	23	70	69
Investments in associates and joint ventures	11	1,388	710
Other non-current assets	12	240	203
Total non-current assets		13,788	12,874
Current assets			
Cash and cash equivalents	13	1,354	940
Accounts receivable and prepayments	14	2,463	2,908
Inventories	15	374	356
Non-current assets held for sale	10	74	50
Total current assets		4,265	4,254
Total assets		18,053	17,128
Equity and liabilities			
Equity			
Share capital	22	2,276	2,276
Additional paid in capital	22	9,187	9,187
Accumulated loss		(5,294)	(7,798)
Total equity		6,169	3,665
Liabilities			
Non-current liabilities			
Long-term promissory notes	16	5,886	6,217
Long-term borrowings	17	1,317	1,205
Deferred income tax liabilities	23	676	819
Provisions for liabilities and charges	18	313	62
Other long-term liabilities	21	13	22
Total non-current liabilities		8,205	8,325
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	19	1,396	2,119
Current portion of long-term promissory notes	16	984	-
Accounts payable and accrued charges	20	738	2,083
Provisions for liabilities and charges	31	246	399
Taxes payable	21	315	537
Total current liabilities		3,679	5,138
Total liabilities		11,884	13,463
Total equity and liabilities		18,053	17,128



Vitaly G. Yakovlev
President
23 March 2007



Elena V. Tonyavina
Chief Accountant
23 March 2007

The accompanying notes set out on pages 8 to 31 are an integral part of these financial statements.

ОАО VOSTOKGAZPROM
IFRS Consolidated Statement of Income for the year ended 31 December 2006
(in millions of Russian Roubles)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
Sales	24	9,081	7,865
Production costs	25	(1,708)	(1,407)
Depreciation of property, plant and equipment	8	(833)	(794)
Exploration expenses		(257)	(7)
Taxes other than on income	26	(817)	(1,236)
Selling and transportation costs	27	(1,127)	(1,080)
General and administrative expenses	28	(721)	(785)
Provision for impairment of accounts receivable		(208)	(87)
Loss on disposal and impairment of property, plant and equipment		(79)	(99)
Other operating expenses		(126)	(192)
Operating profit		3,205	2,178
Net financial expense	29	(822)	(1,917)
Share of net income of associates and joint ventures	11	645	49
Profit before income tax		3,028	310
Current income tax		(668)	(559)
Deferred income tax		144	14
Income tax expense	23	(524)	(545)
Net profit (loss)		2,504	(235)



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23 March 2007



Elena V. Tonyavina
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23 March 2007

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ОАО VOSTOKGAZPROM
IFRS Consolidated Statement of Cash Flows for the year ended 31 December 2006

(in millions of Russian Roubles)

	Year ended 31 December 2006	Year ended 31 December 2005
Profit before income tax	3,028	310
Adjustments for:		
Depreciation of property, plant and equipment	833	794
Net financial expense	822	1,917
Provision for impairment of accounts receivable	208	87
Provision for tax claims	(153)	86
Loss on disposals and impairment of property, plant and equipment	79	99
Share of net income of associates and joint ventures	(645)	(49)
Other	6	(32)
Net operating cash flow before changes in working capital	4,178	3,212
Net (increase) decrease in inventories	(18)	2
Net decrease (increase) in accounts receivable and prepayments	532	(785)
Net (decrease) increase in taxes payable other than income tax	(235)	168
Net decrease in accounts payable and accrued charges	(1,404)	(296)
Income tax paid	(817)	(313)
Net cash provided by operating activities	2,236	1,988
Cash flows from investing activities		
Capital expenditures	(1,157)	(727)
Purchase of exploration and evaluation assets	(36)	(54)
Disposal of property, plant and equipment	17	262
Net cash used in investing activities	(1,176)	(519)
Cash flows from financing activities		
Proceeds from borrowings	2,180	2,041
Repayments of borrowings	(2,540)	(3,129)
Interest paid	(286)	(331)
Net cash used in financing activities	(646)	(1,419)
Net increase in cash and cash equivalents	414	50
Cash and cash equivalents at beginning of period	940	890
Cash and cash equivalents at end of period	1,354	940



Vitaly G. Yakovlev
President
23 March 2007



Elena V. Tonyavina
Chief Accountant
23 March 2007

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ОАО ВОСТОКГАЗПРОМ**IFRS Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2006**
(in millions of Russian Roubles)

	Share capital	Additional paid in capital	Accumulated loss	Total equity
Balance as of 1 January 2005	2,276	9,781	(7,563)	4,494
Net loss	-	-	(235)	(235)
Exchange of promissory notes issued (Note 16)	-	(594)	-	(594)
Balance as of 31 December 2005	2,276	9,187	(7,798)	3,665
Balance as of 1 January 2006	2,276	9,187	(7,798)	3,665
Net profit	-	-	2,504	2,504
Balance as of 31 December 2006	2,276	9,187	(5,294)	6,169



Vitaly G. Yakovlev
President
23 March 2007



Elena V. Tonyavina
Chief Accountant
23 March 2007

The accompanying notes on pages 8 to 31 are an integral part of these financial statements.

1. GENERAL INFORMATION

ОАО Востокгазпром ("the Company") was registered in the Tomsk region, which is located within the Russian Federation, on 21 July 1999 in accordance with the Resolution of Board of Directors of ОАО Газпром.

The Company and its subsidiaries ("the Group") are primarily engaged into exploration, production and refining of hydrocarbons, sale of gas, gas condensate and methanol. Main production facilities of the Group are located in the Tomsk region of the Russian Federation.

The Company is controlled by ОАО Газпром ("the Parent company") which holds 99.98% voting interest in ОАО Востокгазпром as of 31 December 2006 and 2005.

2. RUSSIAN BUSINESS ENVIRONMENT

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

3. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Group's companies maintain their statutory financial statements in accordance with the Regulation on Accounting and Reporting of the Russian Federation ("RAR"). The Group's financial statements are based on the statutory records maintained under historical cost convention, with adjustments and reclassifications recorded in the financial statements for the purpose of fair presentation in accordance with IFRS.

The Russian Rouble ("Russian Rouble" or "RR") is the functional and reporting currency for the Group's operations as the majority of the Group's business is conducted in Russian Roubles and management have historically used the Russian Roubles as reporting currency to manage the Group's financial risks and exposures, and to measure its financial performance. All financial information is presented in Russian Roubles and rounded to nearest million.

The consolidated financial statements are prepared on the historical cost basis. The carrying amounts of fixed assets in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, GosKomStat. Russia ceased to be hyperinflationary for IFRS purposes as of 1 January 2003.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Group are set out below. Except for reclassification of exploration and evaluation assets (see Note 6) and certain reclassifications made to prior year balances to conform to the current year presentation, the Group consistently applied accounting policies.

4.1 Basis of consolidation***Subsidiaries***

The consolidated financial statements include financial statements of subsidiaries where the Group, directly or indirectly, has more than 50% of the voting rights or is otherwise able to exercise control over their operational and financial policies in order to obtain economic benefit.

The consolidated financial statements of the Group reflect the results of operations of any subsidiaries acquired from the date control is established. Subsidiaries are no longer consolidated from the date when control ceases.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in the income statement for the period when acquisition occurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

Associates

Associates are those entities in which the Group has significant influence, but not control. Generally significant influence occurs when the Group has between 20% and 50% of the voting rights. Associates are accounted for using the equity method and originally are recognized at historical cost. Book value of associates includes the goodwill assessed at the moment of acquisition less accumulated impairment losses (if any).

The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Joint ventures

Joint ventures are those entities in which the Group has joint control with the other investor, established by contractual agreement which requires unanimous consent for strategic financial and operating decisions. Joint ventures are accounted for using the equity method as described above for associates.

Transactions with entities under common control

Investments in subsidiaries, associates and jointly controlled entities acquired from or created together with parties under common control are accounted for using the carrying values in the financial statements of the transferring party. The results of subsidiaries, associates and jointly controlled entities are included in these consolidated financial statements, from the date the group obtains control or ownership interest over them.

The results of transactions on acquisition, sale or exchange of assets or liabilities with companies under common control are presented in the consolidated financial statements as part of additional paid in capital.

Transactions eliminated on consolidation

All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

Unrealised gains on transactions between the Group and its equity accounted investees are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

4.2 Foreign currency transactions

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**4.3 Financial instruments**

Financial assets and liabilities carried in the consolidated balance sheet include accounts receivable, cash and cash equivalents, borrowings, promissory notes and accounts payable. Financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are partially or fully de-recognized only when the rights to the separable benefits under the relevant contract are lost, surrendered, or have expired or have been settled. Financial liabilities are de-recognized only when the obligation specified in the relevant contract is discharged, cancelled or has expired.

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.

Financial assets are presented at amortized cost, less impairment provisions. Financial liabilities are presented at amortized cost.

When borrowings are provided at beneficial (below market) interest rates from the parent company, the difference between the cost of borrowings (being the fair value of the future cash outflows using the prevailing market rate of interest at inception) and the proceeds of the borrowings is credited to additional paid in capital. Subsequently, the carrying amount of such borrowings is adjusted for amortization of the difference on origination and the related expense is recorded as interest expense within the consolidated statement of income using the effective yield method.

Fair value disclosure

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

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

4.4 Inventories

Inventories are recorded at the lower of net realizable value and cost. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labor, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

4.5 Hydrocarbon exploration and production activity

Pre-license costs are recognized in the consolidated statement of income as incurred.

Exploration and evaluation(E&E) expenditure

Costs of successful E&E expenditure are presented as E&E assets and are classified as exploration and evaluation assets. E&E assets include licenses to use mineral resources with unproved reserves, costs of exploratory drilling and costs associated with assessing the technical feasibility and commercial viability of hydrocarbon production. E&E assets are initially measured at cost.

E&E costs are assessed for impairment (see Note 4.6) if 1) sufficient data exists to determine technical feasibility and commercial viability, or 2) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, E&E assets are allocated to cash-generating units on a field by field basis.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The technical feasibility and commercial viability of hydrocarbon production is considered to be determinable when proven reserves are determined to exist. Upon determination of proven reserves, E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to tangible production property, plant and equipment.

E&E expenditure deemed to be unsuccessful is recognized immediately in the consolidated statement of income.

Production property, plant and equipment

Property, plant and equipment are carried at historical cost of acquisition or construction after deduction of accumulated depreciation and impairment (if any). Property, plant and equipment items (vehicles, drilling rigs, equipment) used for development as well as for maintenance of E&E assets are presented as tangible assets.

The cost of self-constructed development wells and other assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

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

Interest costs on borrowings are capitalized as part of the cost of self constructed assets during the period of time that is required to construct and prepare the asset for its intended use. All other borrowing costs are expensed.

Depreciation is calculated on a straight-line basis. Assets under construction are not depreciated.

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

	Years
Pipelines	25
Wells and production equipment	12-30
Machinery and equipment	10-18
Buildings and roads	8-50

4.6 Impairment of assets

At each reporting date management reviews the carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. For impairment purposes each field is generally considered a cash generating unit. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**4.7 Non-current assets held for sale**

Non-current assets or disposal groups are classified in the balance sheet as held for sale when their carrying amount will be recovered principally through a sale transaction and not through their use.

Assets (disposal groups) are classified as held for sale when they can be sold in their present condition and on the terms that are typical (standard) for such assets and such sale in itself needs to be highly probable.

Sale can be characterized as highly probable when the management has a firm intention to dispose of the asset, actively searches for potential buyers, has a plan of the asset disposal and works on its execution. An asset becomes a marketable asset for sale at a price comparable to its fair value.

Held for sale assets are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, which continue to be measured in accordance with the Group's accounting policy. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in the consolidated statement of income. Gains are not recognized in excess of any cumulative impairment loss. Held for sale assets (or disposal groups) are not depreciated or amortised.

4.8 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the consolidated statement of income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

4.9 Provisions for liabilities and charges

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

4.10 Pension benefits

The Group's mandatory contributions to the Government pension fund are expensed when incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**4.11 Revenue recognition**

Sales are recognized for financial reporting purposes when products are delivered to customers and title passes and are stated net of VAT, excise taxes and other similar compulsory payments. Natural gas prices in the Russian Federation are established by the Federal Tariffs Service (FTS).

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

4.12 Non-cash transactions

A portion of sales and purchases are settled by mutual settlements, barter and non-cash settlements. These settlements are generally in the form of direct settlement by goods or services with the final customer, cancellation of mutual balances or through a chain of non-cash transactions involving several companies.

Non-cash transactions are measured at the fair value of consideration received or receivable. When it is not possible to measure the fair value of consideration received or receivable reliably, the non-cash transactions are measured at fair value of consideration paid.

Non-cash transactions have been excluded from the operating, investing and financing activities components in the accompanying consolidated statement of cash flows.

4.13 Shareholders' equity

Share capital consists of ordinary shares, which are classified as equity. Any contributions received from shareholders in the form other than a purchase of shares, are recognized as an additional paid in capital.

Dividends

Dividends are recognized as a liability and deducted from shareholders' equity at the date of declaration.

5. KEY ACCOUNTING ESTIMATES AND PROFESSIONAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Management has made a number of judgements, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates and estimates may increase or decrease in the future. Judgements and estimates that have the most significant effect on the amounts recognised in the financial statements include:

Tax legislation

Tax, currency and customs legislation in the Russian Federation allow for multiple interpretations and gets frequently changed and amended (see Note 31).

Useful lives of property, plant and equipment

The estimation of the useful lives of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes if any of these conditions or estimates may result in adjustments for future depreciation rates.

Impairment provision for accounts receivable

Management has determined the provision for impairment of receivables based on specific customer identification, payment trends and subsequent receipts in order to estimate the fair value of future cash collections. Management believes that the Group will be able to realize the net receivable amount through direct collections and other non-cash settlements and that therefore the recorded value approximates their fair value.

5. KEY ACCOUNTING ESTIMATES AND PROFESSIONAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)***Provisions for site restoration***

The Group recognizes provisions when the assessment indicates high probability of outflow of resources and a reliable estimate of the obligation can be made. Due to its nature, the most significant uncertainty is inherent in estimation of cost of site restoration that will be incurred by the Group in the end of useful life of fields. In estimating the amount of provisions, the management of the Group uses results of the assessments of geological engineers, that are based on the current cost of site restoration. Actual results may differ from the estimates, and these estimates may be increased or decreased in future.

6. NEW INTERPRETATIONS AND ACCOUNTING STANDARDS

As a result of adoption of IFRS 6 *Exploration for and evaluation of mineral resources* as of 1 January 2006 the Group made a reclassification of licenses to use mineral resources with unproved reserves from production property, plant and equipment to exploration and evaluation assets. The amount of reclassification is RR 54 as of 31 December 2005 and 2004.

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2006, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

IFRS 7 *Financial Instruments: Disclosures* and the Amendment to IAS 1 *Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to Group's financial instruments and share capital.

The International Financial Reporting Interpretations Committee ("IFRIC") 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e. 1 January 2004).

IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*, which is effective for annual periods beginning on or after 1 March 2007. The Interpretation addresses the classification of the share-based payment as equity-settled or cash-settled in the financial statements of the entity receiving the services.

The Group has not yet analysed the likely impact of the abovementioned Standards and Interpretations on its financial position or performance.

ОАО ВОСТОКГАЗПРОМ**Notes to the IFRS Consolidated Financial Statements for the year ended 31 December 2006****(in millions of Russian Roubles)****7. GROUP STRUCTURE**

The Group's significant subsidiaries, associates and joint ventures are as follows:

Name	Type of activity	Country of Incorporation	Ownership %* as of 31 December 2006
Subsidiaries			
ОАО Tomskgazprom	Extraction of gas, gas condensate and crude oil	Russia	100
ЗАО Methanol	Methanol production	Russia	100
ОАО Novosibirskneftegazpererabotka	Sale of oil products	Russia	76
ООО Tomskneftegazpererabotka	Oil processing	Russia	100
ЗАО SOK Louch	Sport activities	Russia	100
ООО Gaztransservice	Transportation services	Russia	100
ООО Vostok-Infra	Non-residential property management	Russia	100
Associates and joint ventures			
SMD Chemicals	Refining of petrochemical products	Russia	50
ОАО Zapadno-sibirskoe rechnoe parohodstvo	Transportation services	Russia	28

* The ownership share for all subsidiaries, associates and joint ventures of the Group, except for SMD Chemicals, is equal to the voting share. The voting share in SMD Chemicals equals 33%.

On 31 March 2005, the Group acquired additional 2.57% shareholding in ООО Tomskneftekhim from ООО Zavod Benzol. The purchase consideration of RR 215 was paid by the promissory notes issued by ООО Tomskneftekhim. As a result of this transaction the Group's interest in ООО Tomskneftekhim increased from 26% to 29%. The resulting goodwill representing the excess of purchase consideration over the Group's share in the fair value of the net assets of ООО Tomskneftekhim amounted to RR 42 and was recorded as a component of the Group's investment in ООО Tomskneftekhim (see Note 11).

On 1 October 2005, the Group acquired additional 5% share in ООО Tomskneftegazpererabotka from ООО Spetsmontazhstal for RR 3. As a result of this transaction the Group increased its share in ООО Tomskneftegazpererabotka from 95% to 100%.

On 6 September 2005, the Group sold its 76% share in ОАО Altaygazprom to the subsidiary of ОАО Gazprom – ОАО Gazpromregiongaz for RR 76 paid in cash.

In 2005 two of the subsidiaries of the Group have been renamed:

- On 30 March 2005, ЗАО Tomskgazenergo was renamed to ЗАО SOK Louch
- On 3 August 2005, Trade House Vostokgazprom was renamed to ООО Gaztransservice

In August 2006, ОАО Gazprom consolidated its methanol production under SMD Chemicals. The new company was founded by entities under the common control of ОАО Gazprom: ОАО SIBUR Holding, ООО Tomskneftekhim and ЗАО Methanol. The Group's equity share in the charter capital of SMD Chemicals was paid via in kind contribution of property, plant and equipment, accounts receivable from ООО Tomskneftekhim and 29% interest in the charter capital of ООО Tomskneftekhim with the carrying values of RR 13, RR 17 and RR 876, respectively, at the date of contribution.

ОАО VOSTOKGAZPROM**Notes to the IFRS Consolidated Financial Statements for the year ended 31 December 2006****(in millions of Russian Roubles)****7. GROUP STRUCTURE (continued)**

Pursuant to the agreement between the founders of SMD Chemicals, voting rights are shared equally among three investors, whereas the ownership rights are shared equally between ОАО SIBUR Holding and ЗАО Methanol. According to the articles of association of SMD Chemicals, all decisions related to its activity are to be taken unanimously. Within the framework of the agreement on foundation of SMD Chemicals, in 2007 ООО Tomskneftekhim withdrew from SMD Chemicals through distribution of 29% interest in ООО Tomskneftekhim. After the withdrawal of ООО Tomskneftekhim, the voting and ownership interests were split equally among the participants.

8. PROPERTY, PLANT AND EQUIPMENT

	Pipelines	Wells	Buildings and roads	Machinery and equipment	Construction in progress	Total
Historical cost:						
As of 1 January 2005	2,352	3,209	3,529	6,748	1,812	17,650
Changes over the period:						
Additions	-	10	33	117	809	969
Transfers	-	44	144	72	(260)	-
Disposals	(113)	-	(230)	(61)	(126)	(530)
As of 31 December 2005	2,239	3,263	3,476	6,876	2,235	18,089
As of 1 January 2006	2,239	3,263	3,476	6,876	2,235	18,089
Changes over the period:						
Additions	-	-	45	327	1,075	1,447
Transfers	-	417	106	510	(1,033)	-
Disposals	-	(28)	(39)	(183)	(275)	(525)
As of 31 December 2006	2,239	3,652	3,588	7,530	2,002	19,011
Accumulated depreciation:						
As of 1 January 2005	(686)	(1,236)	(847)	(2,720)	-	(5,489)
Depreciation over the period	(46)	(245)	(110)	(393)	-	(794)
Disposals	10	-	4	18	-	32
As of 31 December 2005	(722)	(1,481)	(953)	(3,095)	-	(6,251)
As of 1 January 2006	(722)	(1,481)	(953)	(3,095)	-	(6,251)
Depreciation over the period	(49)	(224)	(125)	(435)	-	(833)
Disposals	-	13	-	60	-	73
As of 31 December 2006	(771)	(1,692)	(1,078)	(3,470)	-	(7,011)
Net book value:						
As of 1 January 2006	1,517	1,782	2,523	3,781	2,235	11,838
As of 31 December 2006	1,468	1,960	2,510	4,060	2,002	12,000

Production property, plant and equipment are shown net of provision for impairment of RR 2,574 as of 31 December 2006 and 2005. Assets under construction are shown net of provision for impairment of RR 145 as of 31 December 2006 and 2005.

As of 31 December 2006, property, plant and equipment with a carrying value of RR 5,733 was pledged as collateral for borrowings (see Notes 17 and 19).

8. PROPERTY, PLANT AND EQUIPMENT (continued)

Additions to historical cost include non-cash additions in the amount of RR 4 and RR 148 for the years ended 31 December 2006 and 2005, respectively.

The Group's gas fields are operated under licenses granted by federal and local authorities. The licenses for exploration and production of hydrocarbons expire between 2019 and 2025, however they may be extended. Management expects to extend existing licenses on properties that are expected to produce hydrocarbons subsequent to their current expiration dates. Because of expected renewals, the assets are depreciated over their useful lives even if this is beyond the end of the current license term.

9. EXPLORATION AND EVALUATION ASSETS

E&E assets include licenses to use mineral resources with a total value of RR 90 and RR 54 as at 31 December 2006 and 2005, respectively. As at 31 December 2006 the Group had licenses to use Vostochno-Myldzhinsky, Prokhorkinsky and Rybalny fields with a book value of RR 24, RR 12 and RR 54, respectively. At Rybalny a program of prospecting and evaluation work has been completed, and seismic work has started. The Group must perform prospecting and evaluation work and start seismic work at the Vostochno-Myldzhinsky and Prokhorkinsky license areas prior to 2008.

10. ASSETS HELD FOR SALE

In December 2006, Group management decided to sell four helicopters, two helicopter pads and a taxi strip with a book value of RR 42. The Group plans to finalise the sale of these assets to ООО Aviation Company Gazpromavia during 2007.

In January 2007, a TU-154M aircraft was sold at its market value of RR 32. Losses in the amount of RR 18, representing the difference between the book value as at 31 December 2005 and selling price is included in the line item "Loss on disposal and impairment of property, plant and equipment" of the consolidated statement of income for the year ended 31 December 2006.

11. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31 December 2006	31 December 2005
Balance at the beginning of the reporting period	710	446
Acquisitions	33	215
Share of profit	645	49
Balance at the end of the reporting period	1,388	710

Financial information of the most significant Group's associate is as follows.

	Percent of share capital held	Location	As of 31 December 2006		For the year ended 31 December 2006	
			Assets	Liabilities	Revenue	Profit
ООО Tomskneftekhim	29%	Russia	-	-	3 153*	561*

	Percent of share capital held	Location	As of 31 December 2005		For the year ended 31 December 2005	
			Assets	Liabilities	Revenue	Profit
ООО Tomskneftekhim	29%	Russia	4 554	1 928	4 723	172

* – these figures represent revenue and profit formed during the 7 months ended 31 July 2006.

11. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

The values, disclosed in the table above, represent total assets, liabilities, revenues and profit of the Group's associate and not the Group's share. The Group's share in profit of SMD Chemicals for the year ended 31 December 2006 is RR 485.

Prior to 15 August 2006, the Group leased fixed assets for the production of methanol from ООО Tomskneftekhim under the operating lease. Starting 15 August 2006, the Group leases fixed assets under operating lease from the jointly controlled company SMD Chemicals (see Note 7). Rent expenses in the amount of RR 173 have been included in production costs for the years ended 31 December 2006 and 2005.

12. OTHER NON-CURRENT ASSETS

	31 December 2006	31 December 2005
Long-term VAT recoverable	69	90
Other receivables from related parties	13	-
Other long-term receivables (net of impairment provision of RR 13 as of 31 December 2006 and 2005)	96	96
Other non-current assets	62	17
	240	203

Long-term VAT recoverable relates to materials and services used for construction of property, plant and equipment that were purchased prior to 1 January 2005. It will be recovered at the time relevant property, plant and equipment is put into use, provided that these materials and services are paid for. Long-term VAT recoverable related to materials and services used during the construction of property, plant and equipment purchased in 2005 and unpaid as of 31 December 2006 will be recovered when relevant materials and services are paid for.

13. CASH AND CASH EQUIVALENTS

Balances included within cash and cash equivalents in the consolidated balance sheet mainly represent Group's current accounts.

Current accounts with banks that are related parties are disclosed in Note 30. Within cash and cash equivalents are RR 511 and RR 5 of US dollar denominated cash balances as of 31 December 2006 and 2005, respectively.

Balance of cash and cash equivalents as of 31 December 2006 includes short-term bank deposits in the amount of RR 400. Deposits were placed with Sberbank (Tomsk branch №8616) and bank Uralsib (Tomsk branch) for less than 1 month and had weighted average interest rate of 4.35% per annum.

Balance of cash and cash equivalents as of 31 December 2005 includes short-term bank deposits in the amount of RR 173. Deposits were placed with bank Uralsib (Tomsk branch) for 1 month and had weighted average rate of 3.3% per annum.

14. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	Note	31 December 2006	31 December 2005
Taxes recoverable (VAT)		1,021	1,404
Trade accounts receivable (net of impairment provision of RR 15 and RR 25 at 31 December 2006 and 2005, respectively)		154	159
Trade receivables of related parties (net of impairment provision of RR 686 and RR 514 at 31 December 2006 and 2005, respectively)	30	575	632
Prepayments and advances (net of impairment provision of RR 9 at 31 December 2006 and 2005)		90	98
Short-term promissory notes and loans (net of impairment provision of RR 73 and RR 79 at 31 December 2006 and 2005, respectively)		3	6
Other accounts receivable of associates (net of impairment provision of RR 85 and RR 62 at 31 December 2006 and 2005, respectively)	30	551	525
Other accounts receivable (net of impairment provision of RR 19 and RR 39 at 31 December 2006 and 2005, respectively)		69	84
		2,463	2,908

Taxes recoverable comprise VAT recoverable which relates to unpaid materials and services purchased prior to 1 January 2006 and VAT recoverable which relates to VAT on expenditures associated with exports which is available for offset following formal approval of the documentation by the tax authorities; VAT recoverable which relates to unpaid materials and services purchased prior to 1 January 2006 will offset VAT payable when the relevant materials and services are paid for.

Approximately 7% and 15% of trade accounts receivable settled during the years ended 31 December 2006 and 2005, respectively, were settled via mutual settlements or other non-cash settlements.

15. INVENTORIES

	31 December 2006	31 December 2005
Raw materials and supplies	244	236
Construction supplies	63	72
Gas condensate mix and methanol	67	48
	374	356

16. LONG-TERM PROMISSORY NOTES

	31 December 2006	31 December 2005
Long-term promissory notes	6,870	6,217
Current portion of long-term promissory notes	(984)	-
	5,886	6,217

OAo VOSTOKGAZPROM**Notes to the IFRS Consolidated Financial Statements for the year ended 31 December 2006**

(in millions of Russian Roubles)

16. LONG-TERM PROMISSORY NOTES (continued)

	31 December 2006	31 December 2005
Due for repayment:		
Between one and two years	1,590	891
Between two and five years	4,296	5,326
	5,886	6,217

As of 31 December 2006 and 2005, long-term promissory notes with the carrying value of RR 6,870 and RR 6,217, respectively, represent promissory notes issued by the Group in 2005 to OAO Gazprom group subsidiary – OOO Factoring-Finance (see Note 30). The nominal value of these promissory notes is RR 9,345.

The fair value of these interest-free promissory notes on the date of issue was RR 6,165. It was determined based on notes' maturities and a discount rate of 10.5% per annum, which was current financing rate of the Group.

These promissory notes were issued to OOO Factoring-Finance in exchange for long-term promissory notes of OAO Vostokgazprom, issued to OAO Gazprom during the period from 1998 to 2000, which were transferred by OAO Gazprom to OOO Factoring-Finance in 2005.

Since the abovementioned operations were between the parties under the common control of OAO Gazprom, the difference between the fair and nominal value of the promissory notes, as well as the effect of the exchange of the promissory notes of OAO Vostokgazprom, were recorded within additional paid in capital.

17. LONG-TERM BORROWINGS

	Currency	Due	31 December 2006	31 December 2005
Long-term bank borrowings payable to:				
ZAO Raiffeisen Bank Austria	US dollar	2007-2008	1,264	1,856
OAO Uralo-Sibirskiy bank	US dollar	2007	527	748
OAO Promstroybank	US dollar	2008-2009	922	432
			2,713	3,036
Less: current portion of long-term bank borrowings			(1,396)	(1,831)
			1,317	1,205

	31 December 2006	31 December 2005
Due for repayment:		
Between one and two years	790	975
Between two and five years	527	230
	1,317	1,205

The Group does not have borrowings that are convertible into equity instruments of the Group.

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

17. LONG-TERM BORROWINGS (continued)

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

	31 December 2006		31 December 2005	
	Interest Rate	Carrying value	Interest rate	Carrying value
Fixed rate US dollar denominated long-term bank borrowings	9.82%	527	11.77%	1,180
Variable rate US dollar denominated long-term bank borrowings	10.46%	2,186	9.74%	1,856
		2,713		3,036

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Provision for site restoration
Balance at the beginning of the reporting period	62
Additional provision	199
Accretion expense	109
Changes in estimate	(57)
Balance at the end of the reporting period	313

The Group recognizes legal obligations for estimated dismantlement of equipment and abandonment of wells. The cost of abandonment of wells and dismantling of equipment is included in the value of property, plant and equipment and is written off throughout the useful life of property, plant and equipment. Costs were discounted to net present value using a discount rate of 7.01% per annum (31 December 2005 – 5.58% per annum), based on the expected dates of dismantlement from 2018 to 2023.

19. SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS

	Currency	31 December 2006	31 December 2005
Short-term bank borrowings from:			
ОАО Promstroybank Tomskiy branch	US Dollar	-	288
Total short-term borrowings		-	288
Current portion of long-term borrowings (see Note 17)		1,396	1,831
		1,396	2,119

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

	31 December 2006		31 December 2005	
	Interest rate	Carrying amount	Interest rate	Carrying amount
Fixed rate US dollar denominated bank borrowings	-	-	11.00%	288
		-		288

20. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	Note	31 December 2006	31 December 2005
Payables to related parties	30	438	1,803
Advances received		60	55
Trade payables		83	110
Wages and salary		19	23
Provision for holidays		65	55
Interest payable		10	10
Other payables		63	27
		738	2,083

Approximately, 5% and 7% of trade accounts payable settled during the years ended 31 December 2006 and 2005, respectively, were settled via mutual settlements or other non-cash settlements.

21. TAXES PAYABLE

	31 December 2006	31 December 2005
Value added tax	209	338
Mineral extraction tax	56	48
Property tax	6	62
Tax penalties and interest	21	44
Income tax	22	23
Other taxes	14	44
	328	559
Less: long-term portion of restructured tax liabilities	(13)	(22)
	315	537

The long-term portion of restructured tax liabilities comprise various taxes, penalties and interest which were previously past due and which were restructured in 2001 following the application of Government Resolution dated 3 September 1999 No.1002. The Group's current restructuring agreements presume payments of outstanding restructured taxes over a period of ten years, in accordance with agreed payment schedules. Based on the contractual dates of repayment, a discount rate of 11% per annum was used in the estimation of the fair value of these liabilities.

The amortization of the discount (representing the difference between the nominal and discounted value of the restructured taxes) amounting to RR 2 and RR 3 for the years ended 31 December 2006 and 2005, respectively, is recorded within imputed interest expense on promissory notes.

The long-term portion of restructured tax liabilities, recorded within other long-term liabilities, has the following maturities:

	31 December 2006	31 December 2005
Between one and two years	8	15
Between two and five years	21	26
	29	41
Less: unamortized discount on restructured taxes	(16)	(19)
	13	22

22. SHAREHOLDERS' EQUITY**Share capital**

Share capital authorized, issued and paid-in as of 31 December 2006 and 2005 consists of 2,276,000 ordinary shares, each with a nominal value of RR 1 thousand. OAO Gazprom's share in the Group's equity equals 99,98%. Voting at the General Meeting of Shareholders of the Company is performed as follows: "one voting share – one vote". The decision on payment of dividends, the amount of dividends and the form of their payment is adopted by the General Meeting of Shareholders of the Company.

Additional paid in capital

From 1998 to 2000 the Group issued long-term promissory notes to and received RR denominated borrowings from OAO Gazprom at beneficial interest rates. The difference of RR 9,781 between the fair and the nominal value of the borrowings net of income tax has been credited to additional paid in capital.

In November 2005, the Group exchanged these promissory notes with the company under common control of OAO Gazprom. The net result of this transaction of RR 594 net of income tax was recorded as a reduction of additional paid-in capital (See Note 16).

23. INCOME TAX

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

	Year ended 31 December 2006	Year ended 31 December 2005
Profit before income tax	3,028	310
Theoretical tax charge at statutory rate of 24%	(727)	(74)
Tax effect of non-deductible items and items not included in income tax base:		
Non-taxable income (non-deductible expenses)	76	(24)
Effect of changes in taxable base of financial liabilities and other reconciling items	127	(447)
Income tax expense	(524)	(545)

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of temporary differences is recorded at the rate of 24%.

23. INCOME TAX (continued)

	31 December 2006	Recognised in the Statement of changes in shareholders' equity	Recognised in the Statement of income	31 December 2005
Deferred income tax liabilities				
Long-term promissory notes	594	-	(157)	751
Property, plant and equipment	55	-	(47)	102
Investments in associates and jointly controlled entities	230	-	159	71
Other	6	-	-	6
Deferred income tax assets				
Accounts receivable	(213)	-	(70)	(143)
Other	(66)	-	(29)	(37)
Net deferred income tax liability	606	-	(144)	750

	31 December 2005	Recognised in the Statement of changes in shareholders' equity	Recognised in the Statement of income	31 December 2004
Deferred income tax liabilities				
Long-term promissory notes	751	(187)	139	799
Property, plant and equipment	102	-	(142)	244
Investments in associates	71	-	11	60
Other	6	-	6	-
Deferred income tax assets				
Accounts receivable	(143)	-	2	(145)
Other	(37)	-	(30)	(7)
Net deferred income tax liability	750	(187)	(14)	951

In accordance with Tax Code of the Russian Federation, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred income tax asset of one company in the Group can not be offset against a deferred income tax liability of another company in the Group.

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 3,524 and RR 1,178 as of 31 December 2006 and 2005, respectively. A deferred tax liability on these temporary differences was not recognized because management controls the timing of the reversal of the temporary differences and they will not reverse in the foreseeable future.

ОАО VOSTOKGAZPROM**Notes to the IFRS Consolidated Financial Statements for the year ended 31 December 2006****(in millions of Russian Roubles)****24. SALES**

	Year ended 31 December 2006	Year ended 31 December 2005
Revenue from gas sales		
Russian Federation	2,899	2,948
	2,899	2,948
Revenue from gas condensate sales		
Export	665	789
Russian Federation	1,046	834
	1,711	1,623
Revenue from methanol sales		
Export	1,976	1,133
Russian Federation	1,522	1,482
	3,498	2,615
Other revenue		
Railway tariff	268	240
Other	705	439
	973	679
	9,081	7,865

Included in the amount of sales are export sales of methanol to Nordlimit As in the amount RR 1,955 and RR 1,133 for the years ended 31 December 2006 and 2005, respectively.

Included in the amount of sales are domestic sales of gas condensate to Trade-Nafta in the amount of RR 1,042 and RR 515 as well as export sales of gas condensate to Minco Enterprises Ltd in the amount of RR 473 and RR 789 for the years ended 31 December 2006 and 2005, respectively.

Revenue from export gas condensate sales for the years ended 31 December 2006 and 2005 is shown net of export duties of RR 524 and RR 492, respectively.

25. PRODUCTION COSTS

	Year ended 31 December 2006	Year ended 31 December 2005
Staff costs	481	432
Materials	260	194
Rent	187	174
Maintenance services	173	124
Fuel and energy	160	132
Railway tariff	263	208
Other	184	143
	1,708	1,407

26. TAXES OTHER THAN ON INCOME

	Year ended 31 December 2006	Year ended 31 December 2005
Mineral extraction tax	829	600
Property tax	(38)	381
Fines and penalties	(26)	(17)
Other taxes	52	272
	817	1,236

Property tax for the year ended 31 December 2006 includes reversal of provision in the amount of RR 126 accrued in 2005.

Fines and penalties for the year ended 31 December 2006 include accrual of penalties on excise tax and reversal of fines and penalties on property tax in the amount of RR 36 and RR 63, respectively. Fines and penalties for the year ended 31 December 2005 include accrual of penalties on excise tax and reversal of penalties on mineral resource tax in the amount of RR 37 and RR 68, respectively.

Mineral extraction tax for the year ended 31 December 2005 includes accrual of provision in the amount of RR 186.

Other taxes for the year ended 31 December 2005 include accrual of provision for excise tax and mineral resource tax in the amount of RR 107 and RR 70, respectively.

Taxes other than on income are computed as follows:

- In 2005 the rate of mineral extraction tax was 17.5% of the value of gas condensate produced and RR 135.00 (one hundred and thirty five roubles) per thousand cubic meters of natural gas produced;
- Since 1 January 2006 the rate of mineral extraction tax was changed to RR 147.00 (one hundred and forty seven roubles) per thousand cubic meters of natural gas produced;
- Property tax is imposed at a maximum rate of 2.2% on the average annual statutory net book value of fixed assets.

27. SELLING AND TRANSPORTATION COSTS

	Year ended 31 December 2006	Year ended 31 December 2005
Transport	1,100	1,046
Selling expenses	27	34
	1,127	1,080

28. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2006	Year ended 31 December 2005
Staff costs	324	343
Administrative expense	167	198
Consulting, information and audit services	80	104
Third parties services	135	127
Sponsorship and other social expenses	15	13
	721	785

ОАО ВОСТОКГАЗПРОМ**Notes to the IFRS Consolidated Financial Statements for the year ended 31 December 2006**

(in millions of Russian Roubles)

29. NET FINANCIAL EXPENSE

	Year ended 31 December 2006	Year ended 31 December 2005
Imputed interest expense on promissory notes	655	1,429
Accretion expense	109	3
Interest expense on other borrowings	288	318
Exchange (gain)/loss, net	(222)	120
Other	(8)	47
	822	1,917

30. RELATED PARTIES

For the purpose of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship attention is directed to the substance of the relationship, not merely the legal form.

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2006 are detailed below.

	Nature of relationship
ОАО Gazprom	Parent company
ОАО АК Сибур	Fellow subsidiary of ОАО Gazprom
ООО Газкомплектимпекс	Fellow subsidiary of ОАО Gazprom
ОАО Томскгаз	Fellow subsidiary of ОАО Gazprom
ОАО Красноярскгазпром	Fellow subsidiary of ОАО Gazprom
ООО Межрегионгаз	Fellow subsidiary of ОАО Gazprom
АБ Газпромбанк (ЗАО)	Fellow subsidiary of ОАО Gazprom
ООО Томсктрансгаз	Fellow subsidiary of ОАО Gazprom
ООО Factoring Finance	Fellow subsidiary of ОАО Gazprom
ОАО Алтайгазпром	Fellow subsidiary of ОАО Gazprom
ОАО Иркутскгазпром	Fellow subsidiary of ОАО Gazprom
ОАО Кузбассгазпром	Fellow subsidiary of ОАО Gazprom
ООО Востокресурс	Under common control of ОАО Gazprom
ООО Томскнеftekhim	Associate of the Group
ОАО Западнo-сибирское речное пароходство	Associate of the Group
SMD Chemicals	Joint venture of the Group
ОАО ТНКbZ	Under common control of ОАО Gazprom
ОАО Газпромнефть	Fellow subsidiary of ОАО Gazprom
ОАО Сибнефть – Восток	Fellow subsidiary of ОАО Газпромнефть
ОАО СИБУР Holding	Under common control of ОАО Gazprom
ООО Газпромтранс	Under common control of ОАО Gazprom
ЗАО Нортгаз	Associate of ОАО Gazprom

ОАО ВОСТОКГАЗПРОМ**Notes to the IFRS Consolidated Financial Statements for the year ended 31 December 2006**

(in millions of Russian Roubles)

30. RELATED PARTIES (continued)

Significant transactions with related parties during the year were as follows:

	Pricing	Year ended 31 December 2006	Year ended 31 December 2005
ОАО Gazprom			
Purchase of gas transportation services	ОАО Gazprom internal prices	647	597
ООО Mezhrregiongas			
Sale of gas	FTS tariffs	2,706	2,926
ООО Vostokresurs			
Export sale of gas condensate (non-CIS countries)	Market based	-	491
Sale of methanol	Market based	-	195
Sale of methanol transportation services	Market based	-	128
ООО Gazkomplektimpex			
Sale of methanol	Market based	454	246
Sale of methanol transportation services	Market based	162	73
ООО Tomskneftekhim			
Sale of steam	Market based	3	-
Sale of methanol	Market based	-	168
Purchase of heat and electricity	Market based	105	91
Purchase of other production and trade services	Market based	115	41
Purchase of lease services	Market based	106	173
Purchase of methanol transportation services	Market based	30	102
SMD Chemicals			
Sale of methanol	Market based	14	-
Sale of gas processing services	Market based	132	-
Agent fee	Market based	3	-
Purchase of lease services	Market based	67	-
ООО SIBUR Holding			
Sale of methanol	Market based	317	32
Sale of methanol transportation services	Market based	28	-
ОАО Gazpromneft			
Sale of methanol	Market based	50	11
Sale of methanol transportation services	Market based	5	-
ООО Sibneft - Vostok			
Rendering of car services	Market based	5	-
ОАО Gazpromtrans			
Tank rendering	Market based	194	6
Purchase of methanol transportation services	Market based	270	-
ZAO Nortgaz			
Sale of methanol	Market based	18	17

ОАО ВОСТОКГАЗПРОМ**Notes to the IFRS Consolidated Financial Statements for the year ended 31 December 2006**

(in millions of Russian Roubles)

30. RELATED PARTIES (continued)

The Group has the following balances with related parties as of 31 December 2006 and 2005.

Accounts receivable and prepayments

	31 December 2006			31 December 2005		
	Cost	Impairment provision	Carrying value	Cost	Impairment provision	Carrying value
ООО Томскнеftekhim	-	-	-	32	-	32
ООО Mezhhregiongaz	130	-	130	151	-	151
ООО Vostokresurs	969	(605)	364	969	(433)	536
ОАО Красноярскгазпром	185	(51)	134	112	(51)	61
ООО Газкомплектимпекс	305	-	305	222	-	222
ОАО Газпром	4	-	4	5	-	5
ОАО Алтагазпром	104	(23)	81	104	(23)	81
SMD Chemicals	87	-	87	-	-	-
ОАО Иркутскгазпром	15	(15)	-	15	(11)	4
ОАО Кузбассгазпром	44	(44)	-	44	(15)	29
Other	54	(33)	21	79	(43)	36
	1,897	(771)	1,126	1,733	(576)	1,157

Accounts payable and accrued charges

	31 December 2006	31 December 2005
ОАО Газпром	13	10
ООО Vostokresurs	346	346
SMD Chemicals	30	-
ООО Томскнеftekhim	15	42
ООО Factoring Finance	30	1,405
Other	4	-
	438	1,803

Long-term promissory notes

	31 December 2006	31 December 2005
Long-term promissory notes	6,870	6,217
Current portion of long-term promissory notes	(984)	-
	5,886	6,217

Long-term promissory notes were issued to ОАО Газпром subsidiary ООО Factoring Finance as of 31 December 2006 and 2005 (see Note 16).

Cash and cash equivalents

As of 31 December 2006 and 2005, cash balance included RR 61 and RR 36, respectively, of cash held in AB Gazprombank (ZAO).

30. RELATED PARTIES (continued)**Directors' remuneration**

The Group paid to members of the Board of Directors and Management Committee salary and bonuses of approximately RR 25 and RR 79 for the years ended 31 December 2006 and 2005, respectively. The salary and bonuses of members of the Board of Directors are subject to approval by the General Meeting of Shareholders. Salary and bonus compensation paid to members of the Management Committee is determined by the terms of annual employment contracts.

31. COMMITMENTS, CONTINGENCIES AND OPERATING RISKS**Operating environment**

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

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover earlier periods.

As of 31 December 2006, the Group management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs position above mentioned transactions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements within provisions for liabilities and charges. However, the relevant tax authorities may have differing interpretations and the effects on the financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

As of 31 December 2006 and 2005, the Group created a provision for contingent tax liabilities for the total amount of RR 246 and RR 399, respectively (see Note 26). The management believes that the provision reflected in the financial statements as of 31 December 2006 is enough to cover potential expenses on tax authorities' claims.

Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. 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.

Insurance

The insurance industry in the Russian Federation is in a developing state. Management believes that the Group has adequate property damage coverage for its main production assets. The Group does not have full coverage for business interruption, third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Environmental matters

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.

31. COMMITMENTS, CONTINGENCIES AND OPERATING RISKS (continued)

Environmental regulations are currently under consideration in the Russian Federation. The Group routinely assess and evaluate their obligations in response to new and changing legislation.

As liabilities in respect of the Group's environmental obligations are able to be determined, they are charged against income over the estimated remaining lives of the related assets or recognized immediately depending on their nature. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material. Under existing legislation, however, management believes that there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

Capital commitments

In the normal course of business, the Group has entered into contracts for the purchase and construction of property, plant and equipment. The Board of directors has approved an investment program and program of exploration work for 2007 in the amount of RR 1,082 and RR 224, respectively.

32. FINANCIAL RISKS

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

Foreign exchange risk

The Group exports gas condensate and methanol and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US dollar.

In an operational sense, the Group's exposure to foreign exchange risk is increased since the operating expenses are denominated in Russian Roubles while part of income is denominated in foreign currency.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations.

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The majority of interest rates on long-term borrowings are variable, which are disclosed in Notes 17 and 19. The Group has no significant interest-bearing assets.

Credit risk

Financial instruments, which potentially subject the Group to concentrations of credit risk primarily consist of accounts receivable including promissory notes. The credit risks are systematically monitored and are considered when impairment provisions are created.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

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

Commodity risk

Revenues generated by the sale of gas, condensate and methanol depend on volumes and commodity prices. A decline in the prices could result in a decrease in net income and cash flows. An extended period of low prices could precipitate a decrease in development activities and thus could considerably affect financial position of the Group and ultimately impact the Group's ability to deliver under its contractual obligations.

Fair value of financial instruments

The fair value of long term promissory notes and restructured taxes is discussed in note 16 and 21, respectively. The carrying value of other Group's financial instruments approximates their fair values.

VOSTOKGAZPROM
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