CJSC ARMRUSGAZPROM

Consolidated financial statements

For the years ended December 31, 2007 and 2006

Ernst & Young

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Independent Auditors' Report

To the Board of Directors and Shareholders of
Closed Joint Stock Company ArmrusGazprom

We have audited the accompanying consolidated financial statements of CJSC ArmrusGazprom and its subsidiaries (the 'Group') which comprise the consolidated balance sheet as of December 31, 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except for the matter described in the Basis for Qualified Opinion paragraph, we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

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Basis for Qualified Opinion

We did not observe the counting of the physical inventories as of January 1, 2006, since that date was prior to the time we were initially engaged as auditors for the Group. Owing to the nature of the Group's records, we were unable to satisfy ourselves as to inventory quantities by other audit procedures. Since opening inventories enter into the determination of the results of operations, we were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for 2006. Our auditor's report on the consolidated financial statements for the year ended December 31, 2006 was modified accordingly.

Qualified Opinion

In our opinion, except for the effect on the corresponding figures for 2006 of the adjustments, if any, to the results of operations for the year ended December 31, 2006, which we might have determined to be necessary had we been able to observe beginning inventory quantities as of January 1, 2006, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 26 to the consolidated financial statements, which discloses a significant concentration of the Group's business with related parties.

September 30, 2008

Ernst + Young LLC

CJSC ARMRUSGAZPROM

Consolidated Balance Sheets

as of December 31, 2007 and 2006

(in millions of Armenian drams except share amounts)

	Notes	December 31, 2007	December 31, 2006
Assets			
Non-current assets			
Property, plant and equipment	7	143,509	140,200
Advances issued	8	11,173	11,173
Property held-for-sale	9	-	2,417
Other non-current assets	10	20,629	9,902
Deferred tax assets	19	4,616	3,821
Total non-current assets		**179,927**	**167,513**
Current assets			
Inventories	11	6,728	5,328
Receivables and prepayments	12	60,079	10,916
Prepaid taxes	12	1,248	547
Short-term investments	13	1,691	1,956
Cash and cash equivalents	14	14,622	20,655
Other current assets		13	15
Total current assets		**84,381**	**39,417**
Total assets		**264,308**	**206,930**
Equity and liabilities			
Equity			
Share capital 5026,5 Dram/share (shares outstanding: 36,315 thousand and 36,315 thousand as of December 31, 2007 and 2006, respectively)	15	196,938	196,938
Unpaid share capital	15	(14,400)	(14,400)
Accumulated deficit		(7,615)	(15,674)
Total equity		**174,923**	**166,864**
Non-current liabilities			
Long-term borrowings	16	26	797
Post employment benefit provision	17	767	312
Grants received	18	632	670
Deferred income tax liabilities	19	176	196
Total non-current liabilities		**1,601**	**1,975**
Current liabilities			
Trade and other payables	20	26,508	33,570
Short-term borrowings	16	59,502	1,360
Grants received	18	42	42
Taxes payable	20	455	2,276
Provisions	17	1,277	843
Total current liabilities		**87,784**	**38,091**
Total liabilities		**89,385**	**40,066**
Total equity and liabilities		**264,308**	**206,930**

The accompanying notes set out on pages 8 to 38 are an integral part of these financial statements

CJSC ARMRUSGAZPROM

Consolidated Income Statements

For the years ended December 31, 2007 and 2006

(in millions of Armenian drams except share amounts)

	Notes	2007	2006
Sales	21	103,423	81,962
Cost of sales	22	(97,812)	(82,947)
Gross profit/(loss)		5,611	(985)
Selling, general and administrative expenses	22	(7,486)	(5,802)
Net other operating income/(expenses)	22	998	(2,913)
Foreign exchange gains	23	9,357	7,261
Operating profit/(loss)		8,480	(2,439)
Financial items, net:			
Interest expense		(1,416)	(182)
Interest income		607	174
Total financial items		**(809)**	**(8)**
Profit/(Loss) before income tax		**7,671**	**(2,447)**
Income tax benefit	**19**	**388**	**2,126**
Profit/(Loss) for the period, attributable to shareholders		**8,059**	**(321)**
Earnings / (Loss) per share (Armenian drams)	15	222	(11)

The accompanying notes set out on pages 8 to 38 are an integral part of these financial statements

CJSC ARMRUSGAZPROM

Consolidated Statements of Cash Flows

For the years ended December 31, 2007 and 2006

(in millions of Armenian drams)

	Notes	2007	2006
Profit/(Loss) before income tax		7,671	(2,447)
Adjustments for:			
Depreciation of property, plant and equipment	7	11,259	10,279
Allowance for doubtful receivables and advances	12,22	561	238
Loss on disposal of property, plant and equipment	22	7	99
Interest expense		1,416	182
Interest income		(607)	(174)
Changes in provisions		1,300	661
Foreign exchange gain	23	(9,357)	(7,261)
Grant released to the income statement	18	(42)	(42)
(Accretion of) / Discount on accounts receivable from government under subsidy program	22	(1,760)	2,159
Operating cash flows before working capital changes		**10,448**	**3,694**
Increase in trade and other receivables		(41,178)	(11,092)
Increase in inventories		(1,809)	(289)
Decrease in prepayments		1,610	275
Increase/(decrease) in trade and other payables		(7,617)	3,921
Increase in taxes payable other than income tax		1,892	596
Cash used in operations		**(36,654)**	**(2,895)**
Income tax paid		(281)	(178)
Interest paid		(827)	(205)
Net cash used in operating activities		**(37,762)**	**(3,278)**
Cash flows from investing activities:			
Purchase of PP&E and inventory for construction	7,10	(35,121)	(8,813)
Advances issued	8	-	(11,173)
Acquisition of property held-for-sale	9	-	(536)
Proceeds from sale of available for sale investments	9	2,417	-
Proceeds from the sale of property, plant and equipment		563	147
Interest on deposits received		607	174
Loans provided to third parties	13	(1,205)	(1,046)
Proceeds from repayment of loans	13	1,838	723
Increase in short-term deposits over 3 months	13	(444)	(764)
Net cash used in investing activities		**(31,345)**	**(21,288)**

The accompanying notes set out on pages 8 to 38 are an integral part of these financial statements

CJSC ARMRUSGAZPROM

Consolidated Statements of Cash Flows (continued)

For the years ended December 31, 2007 and 2006

(in millions of Armenian drams)

	Notes	2007	2006
Cash flows from financing activities:			
Proceeds from short-term and long-term borrowings	16	88,523	7,034
Repayment of short-term and long-term borrowings	16	(26,073)	(8,277)
Proceeds from the additional issue of shares	15	-	41,796
Net cash provided by financing activities		**62,450**	**40,553**
Effects of exchange rate changes on cash and cash equivalents		624	(739)
Net (decrease)/increase in cash and cash equivalents		**(6,033)**	**15,248**
Cash and cash equivalents at the beginning of the year	14	**20,655**	**5,407**
Cash and cash equivalents at the end of the year	14	**14,622**	**20,655**

The accompanying notes set out on pages 8 to 38 are an integral part of these financial statements

CJSC ARMRUSGAZPROM

Consolidated Statements of Changes in Equity

For the years ended December 31, 2007 and 2006

(in millions of Armenian dram)

		Attributable to the shareholders of CJSC ArmrusGazprom		
	Notes	Share capital	Accumulated deficit	Total equity
Balance at January 1, 2006 (unaudited)		140,742	(15,353)	125,389
Loss for the year		-	(321)	(321)
Total expense for the year			(321)	(321)
Issue of shares		41,796	-	41,796
Balance at December31, 2006		182,538	(15,674)	166,864
Profit for the year		-	8,059	8,059
Total income for the year		-	8,059	8,059
Balance at December 31, 2007	15	182,538	(7,615)	174,923

The accompanying notes set out on pages 8 to 38 are an integral part of these financial statements