OAO GAZPROM

IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of OAO Gazprom

We have audited the accompanying consolidated financial statements of OAO Gazprom and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2011 and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

27 April 2012
Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit
White Square Office Center, 10 Butyrsky Val, Moscow, Russia 125047
T: +7 (495) 967 60 00, F: +7 (495) 967 6001, www.pwc.com

OAO GAZPROM
IFRS CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2011
(In millions of Russian Roubles)

Notes		31 December 2011	31 December 2010
	Assets		
	Current assets		
8	Cash and cash equivalents	501,344	440,786
8	Restricted cash	3,877	3,669
9	Short-term financial assets	23,991	7,435
10	Accounts receivable and prepayments	784,053	757,900
11	Inventories	407,530	325,739
	VAT recoverable	303,454	158,390
	Other current assets	216,044	171,976
		2,240,293	1,865,895
	Non-current assets		
12	Property, plant and equipment	6,718,575	5,486,429
13	Investments in associated undertakings and jointly controlled entities	715,966	757,157
14	Long-term accounts receivable and prepayments	517,097	436,432
15	Available-for-sale long-term financial assets	181,138	191,417
16	Other non-current assets	527,627	498,663
		8,660,403	7,370,098
	Total assets	10,900,696	9,235,993
	Liabilities and equity		
	Current liabilities		
17	Accounts payable and accrued charges	804,644	702,640
	Current profit tax payable	44,036	45,649
18	Other taxes payable	93,707	71,920
19	Short-term borrowings, promissory notes and current portion of long-term borrowings	366,868	191,052
		1,309,255	1,011,261
	Non-current liabilities		
20	Long-term borrowings	1,173,294	1,124,395
23	Provisions for liabilities and charges	206,734	200,040
21	Deferred tax liabilities	402,728	333,143
	Other non-current liabilities	47,694	30,793
		1,830,450	1,688,371
	Total liabilities	3,139,705	2,699,632
	Equity		
24	Share capital	325,194	325,194
24	Treasury shares	(104,605)	(103,986)
24	Retained earnings and other reserves	7,242,982	6,028,543
		7,463,571	6,249,751
32	Non-controlling interest	297,420	286,610
	Total equity	7,760,991	6,536,361
	Total liabilities and equity	10,900,696	9,235,993

A.B. Miller
Chairman of the Management Committee
27 April 2012

E.A. Vasilieva
Chief Accountant
27 April 2012

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

OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011
(In millions of Russian Roubles)

Notes		Year ended 31 December 2011	2010
25	Sales	4,637,090	3,597,054
5	Net gain from trading activity	2,791	6,256
26	Operating expenses	(2,942,181)	(2,440,777)
	Impairment provision and other provisions	(40,857)	(48,711)
	Operating profit	**1,656,843**	**1,113,822**
27	Finance income	190,488	171,841
27	Finance expense	(267,823)	(169,147)
13	Share of net income of associated undertakings and jointly controlled entities	99,049	76,520
	Gains on disposal of available-for-sale financial assets	1,379	3,292
37	Gain from disposal of interest in OAO NOVATEK	-	77,375
	Profit before profit tax	**1,679,936**	**1,273,703**
	Current profit tax expense	(279,216)	(249,387)
	Deferred profit tax expense	(58,278)	(26,323)
21	Profit tax expense	(337,494)	(275,710)
	Profit for the year	**1,342,442**	**997,993**
	Other comprehensive income		
	(Losses) gains arising from change in fair value of available-for-sale financial assets, net of tax	(7,669)	18,904
	Share of other comprehensive (loss) income of associated undertakings and jointly controlled entities	(19,302)	4,100
	Translation differences	19,342	(9,407)
	Other comprehensive (loss) income for the year, net of tax	**(7,629)**	**13,597**
	Total comprehensive income for the year	**1,334,813**	**1,011,590**
	Profit attributable to:		
	owners of OAO Gazprom	1,307,018	968,557
32	non-controlling interest	35,424	29,436
		1,342,442	997,993
	Total comprehensive income attributable to:		
	owners of OAO Gazprom	1,297,891	981,280
	non-controlling interest	36,922	30,310
		1,334,813	1,011,590
29	**Basic and diluted earnings per share for profit attributable to the owners of OAO Gazprom (in Roubles)**	**56.95**	**42.20**

A.B. Miller
Chairman of the Management Committee
27 April 2012

E.A. Vasilieva
Chief Accountant
27 April 2012

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

OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011
(In millions of Russian Roubles)

Notes		Year ended 31 December 2011	2010
	Operating activities		
30	**Net cash provided by operating activities**	**1,637,450**	**1,460,116**
	Investing activities		
12	Capital expenditures	(1,553,118)	(1,042,642)
	Net change in loans issued	(6,469)	(9,113)
	Interest received	14,950	13,233
12	Interest paid and capitalised	(58,507)	(62,392)
	Acquisition of subsidiaries, net of cash acquired	(111,001)	(73,696)
36	Decrease of cash and cash equivalents from deconsolidation of banking subsidiaries	-	(32,504)
13	Investment in associated undertakings and jointly controlled entities	(18,405)	(32,817)
38	Proceeds from sales of interest in subsidiaries	12,307	34,540
37	Proceeds from disposal of interest in OAO NOVATEK	-	57,462
13	Proceeds from associated undertakings and jointly controlled entities	118,495	93,894
	Net change of long-term available-for-sale financial assets	(1,369)	317
	Change in other long-term financial assets	(2,128)	3,411
	Net cash used for investing activities	**(1,605,245)**	**(1,050,307)**
	Financing activities		
20	Proceeds from long-term borrowings	331,226	223,753
20	Repayment of long-term borrowings (including current portion)	(168,157)	(316,042)
	Net repayment of promissory notes	(156)	(812)
19	Net repayment of short-term borrowings	(7,345)	(30,294)
24	Dividends paid	(93,977)	(55,106)
	Interest paid	(28,950)	(33,428)
24	(Purchases) sales of treasury shares	(619)	218
8	Change in restricted cash	(208)	(673)
	Net cash provided by (used for) financing activities	**31,814**	**(212,384)**
	Effect of exchange rate changes on cash and cash equivalents	(3,461)	(6,398)
	Increase in cash and cash equivalents	**60,558**	**191,027**
	Cash and cash equivalents, at the beginning of the reporting year	440,786	249,759
	Cash and cash equivalents, at the end of the reporting year	**501,344**	**440,786**

A.B. Miller
Chairman of the Management Committee
27 April 2012

E.A. Vasilieva
Chief Accountant
27 April 2012

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

OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(In millions of Russian Roubles)

Notes		Number of shares outstanding (billions)	Attributable to owners of OAO Gazprom: Share capital	Treasury shares	Retained earnings and other reserves	Total	Non-controlling interest	Total equity
	Balance as of 31 December 2009	22.9	325,194	(104,204)	5,105,525	5,326,515	322,806	5,649,321
	Profit for the year		-	-	968,557	968,557	29,436	997,993
	Other comprehensive income:							
	Gains arising from change in fair value of available-for-sale financial assets, net of tax		-	-	18,904	18,904	-	18,904
	Share of other comprehensive income of associated undertakings and jointly controlled entities		-	-	4,100	4,100	-	4,100
	Translation differences		-	-	(10,281)	(10,281)	874	(9,407)
	Total comprehensive income for the year ended 31 December 2010		-	-	981,280	981,280	30,310	1,011,590
32	Disposal of controlling interest in subsidiaries		-	-	-	-	(44,701)	(44,701)
32	Change in non-controlling interest in subsidiaries		-	-	(2,499)	(2,499)	(20,695)	(23,194)
24	Return of social assets to governmental authorities		-	-	(756)	(756)	-	(756)
24	Net treasury shares transactions	0.1	-	218	-	218	-	218
24	Dividends		-	-	(55,007)	(55,007)	(1,110)	(56,117)
	Balance as of 31 December 2010	23.0	325,194	(103,986)	6,028,543	6,249,751	286,610	6,536,361
	Profit for the year		-	-	1,307,018	1,307,018	35,424	1,342,442
	Other comprehensive income:							
	Losses arising from change in fair value of available-for-sale financial assets, net of tax		-	-	(7,669)	(7,669)	-	(7,669)
	Share of other comprehensive loss of associated undertakings and jointly controlled entities		-	-	(19,302)	(19,302)	-	(19,302)
24,32	Translation differences		-	-	17,844	17,844	1,498	19,342
	Total comprehensive income for the year ended 31 December 2011		-	-	1,297,891	1,297,891	36,922	1,334,813
32	Purchase of non-controlling interest in subsidiaries		-	-	5,656	5,656	(16,659)	(11,003)
24	Return of social assets to governmental authorities		-	-	(351)	(351)	-	(351)
24	Net treasury shares transactions	(0.1)	-	(619)	-	(619)	-	(619)
24	Dividends		-	-	(88,757)	(88,757)	(9,453)	(98,210)
	Balance as of 31 December 2011	22.9	325,194	(104,605)	7,242,982	7,463,571	297,420	7,760,991

A.B. Miller
Chairman of the Management Committee
24 April 2012

E.A. Vasilieva
Chief Accountant
24 April 2012

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

1 NATURE OF OPERATIONS

OAO Gazprom and its subsidiaries (the "Group") operate one of the largest gas pipeline systems in the world and are responsible for major part of gas production and high pressure gas transportation in the Russian Federation. The Group is also a major supplier of gas to European countries. The Group is engaged in oil production, refining activities, electric and heat energy generation. The Government of the Russian Federation is the ultimate controlling party of OAO Gazprom and has a controlling interest (including both direct and indirect ownership) of over 50% in OAO Gazprom.

The Group is involved in the following principal activities:

- Exploration and production of gas;
- Transportation of gas;
- Sales of gas within Russian Federation and abroad;
- Gas storage;
- Production of crude oil and gas condensate;
- Processing of oil, gas condensate and other hydrocarbons, and sales of refined products; and
- Electric and heat energy generation and sales.

Other activities primarily include production of other goods, works and services.

The weighted average number of employees during 2011 and 2010 was 401 thousand and 393 thousand, respectively.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation (Note 41).

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

3 BASIS OF PRESENTATION

These consolidated financial statements are prepared in accordance with, and comply with, International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IFRS") and effective in reporting period.

The consolidated financial statements of the Group are prepared under the historical cost convention except for certain financial instruments as described in Note 5. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

4 SCOPE OF CONSOLIDATION

As described in Note 5, these financial statements include consolidated subsidiaries, associated undertakings and jointly controlled entities of the Group. Significant changes in the Group's structure in the 2011 and 2010 are described below.

In November 2011 the Group entered into a share purchase agreement with the State Property Committee of the Republic of Belarus to acquire an additional 50% interest in OAO Beltransgaz for cash consideration of USD 2,500 million. In December 2011 the transaction was finalised. As a result the Group increased its ownership interest up to 100% and obtained control over OAO Beltransgaz (see Note 33).

In November 2010 the Group sold its entire 51% controlling interest in OOO Severenergiya to the OOO Yamal razvitie – jointly controlled entity which is owned on a fifty-fifty basis by the Group (OAO Gazprom Neft) and OAO Novatek (see Note 38).

4 SCOPE OF CONSOLIDATION (continued)

In August 2010 the reorganization in the form of the merger of ZAO Gazenergoprombank to OAO AB Rossiya was finalized. As a result of the reorganization the Group received a non-controlling interest in OAO AB Rossiya (see Note 36).

In February 2011 the Board of Directors of Sibir Energy Ltd. adopted a resolution to reduce the share capital by 86.25 million shares (22.39%). OAO Central Fuel Company, an affiliate to the Moscow Government, made a decision to withdraw membership in Sibir Energy Ltd. for a compensation of USD 740 million. As a result of the transaction starting from 15 February 2011 the Group has 100% interest in Sibir Energy Ltd. (see Note 35).

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Group accounting

Subsidiary undertakings

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

Certain entities in which the Group has an interest of more than 50% are recorded as investments in associated undertakings as the Group is unable to exercise control due to certain factors, for example restrictions stated in foundation documents.

The consolidated financial statements of the Group reflect the results of operations of any subsidiaries acquired from the date control is established. Subsidiaries are no longer consolidated from the date from which control ceases. All intercompany transactions, balances and unrealized surpluses and deficits on transactions between group companies have been eliminated. Separate disclosure is made for non-controlling interests.

The acquisition method of accounting is used to account for the acquisition of subsidiaries, including those entities and businesses that are under common control. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition-related costs are expensed as incurred. 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.

An acquirer should recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability which relate to measurement period adjustments are adjusted against goodwill. Changes which arise due to events occurring after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill.

Goodwill and non-controlling interest

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of comprehensive income. Goodwill is tested annually for impairment as well as when there are indications of impairment. For the purpose of impairment testing goodwill is allocated to the cash generating units that are expected to benefit from synergies from the combination.

Non-controlling interest represents that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. The group treats transactions with non-controlling interests as transactions with equity owners of the group. In accordance with IFRS 3 "Business Combinations", the acquirer recognises the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date, and any non-controlling interest in the acquiree is stated at the non-controlling interest proportion of the net fair value of those items.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associated undertakings, jointly controlled entities and joint ventures

Associated undertakings are undertakings over which the Group has significant influence and that are neither a subsidiary nor an interest in a joint venture. Significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of an entity but has no control or joint control over those policies. Associated undertakings are accounted for using the equity method.

The group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group's interest in each associated undertaking is carried in the consolidated balance sheet at an amount that reflects cost, including the goodwill at acquisition, the Group's share of profit and losses and its share of post-acquisition movements in reserves recognized in equity. Provisions are recorded for any impairment in value.

Recognition of losses under equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking.

Joint ventures related to jointly controlled entities are entities which are jointly controlled by two or more parties and investments in such entities are accounted for using the equity method. Joint ventures are contractual agreements whereby two or more parties undertake economic activity, which is subject to joint control. Joint ventures involving jointly controlled assets or joint operations are accounted for using the proportionate consolidation method.

5.2 Financial instruments

Financial instruments carried on the consolidated balance sheet include cash and cash equivalent balances, financial assets, accounts receivable, promissory notes, accounts payable and borrowings. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each item.

Accounting for financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

Fair value disclosure

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

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

The fair value of publicly quoted financial instruments for disclosure purposes are measured based on current market value at the close of business on the reporting date.

5.3 Derivative financial instruments

As part of trading activities the Group is also party to derivative financial instruments including forward and options contracts in foreign exchange, commodities, and securities. The Group's policy is to measure these instruments at fair value, with resultant gains or losses being reported within the profit and losses of the consolidated statement of comprehensive income. The fair value of derivative financial instruments is determined using actual market data information and valuation techniques based on prevailing market interest rate for similar instruments as appropriate. The Group has no material derivatives accounted for as hedges.

The Group routinely enters into sale and purchase transactions for the purchase and sales of gas, oil, oil products and other goods. The majority of these transactions are entered to meet supply requirements to fulfill contract obligations and for own consumption and are not within the scope of IAS 39 "Financial instruments: recognition and measurement".

Sale and purchase transactions of gas, oil, oil products and other goods and which are not physically settled or can be net settled and are not entered into for the purpose of receipt or delivery of non-financial item in accordance with the Group's expected purchase, sale or usage requirement are accounted for as derivative financial instruments in accordance with IAS 39 "Financial instruments: recognition and measurement". These

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

instruments are considered as held for trading and related gains or losses are recorded within the profit and loss section of the consolidated statement of comprehensive income.

Derivative contracts embedded into sales-purchase contracts are separated from the host contracts and accounted for separately. Derivatives are carried at fair value with gains and losses arising from changes in the fair values of derivatives included within the profit and loss section of the consolidated statement of comprehensive income in the period in which they arise.

5.4 Non derivative financial assets

The Group classifies its financial assets in the following categories:

(a) financial assets at fair value through profit or loss,

(b) available-for-sale financial assets, and

(c) loans and receivables.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation which determines the method for measuring financial assets at subsequent balance sheet date: amortised cost or fair value.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are expected to be realized within 12 months of the balance sheet date. Gains and losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are included within the profit and loss section of the consolidated statement of comprehensive income in the period in which they arise.

There were no material financial assets designated at fair value through profit or loss at inception as of 31 December 2011 and 2010.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets are measured at fair value at inception and subsequently. Investments in quoted equity instruments classified as available-for-sale financial assets are measured at quoted market prices as of the reporting date. Investments in equity instruments for which there are no available market quotations are accounted for at fair value. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price unless the fair value of that instrument is evidenced by comparison with the same instrument or based on a valuation technique whose variables include only data from observable markets. The fair value of unquoted debt instruments classified as available-for-sale financial assets is determined using discounted cash flow valuation techniques based on prevailing market interest rate for similar instruments.

Gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in other comprehensive income and shown net of income tax in the consolidated statement of comprehensive income. When securities classified as available-for-sale are sold, the accumulated fair value adjustments are included in the consolidated statement of comprehensive income as gains (losses) on disposal of available-for-sale financial assets. Interest income on available-for-sale debt instruments calculated using the effective interest method is recognized within the profit and loss section of the consolidated statement of comprehensive income.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables are carried at amortized cost using the effective interest method. Gains and losses are recognized within the profit and loss section of the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

Impairment of financial assets

At each balance sheet date the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss –

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income to profit or loss for the year. The impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment was recognised. For financial assets measured at amortized cost and available-for-sale financial assets which represent debt instruments, the reversal is recognised in profit or loss. For available-for-sale financial assets which represent equity instruments, the reversal is recognised directly in other comprehensive income. Impairment losses relating to assets recognised at cost cannot be reversed.

The provision for impairment of accounts receivable is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 12 months overdue) are considered indicators that the receivable is impaired. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowings at the date of origination of the receivable. The amount of the provision is recognized in the consolidated statement of comprehensive income within operating expenses.

5.5 Options on purchase or sale of financial assets

Options on purchase or sale of financial assets are carried at their fair value. These options are accounted for as assets when their fair value is positive (for call options) and as liabilities when the fair value is negative (for put options). Changes in the fair value of these options instruments are included within the profit and loss section of the consolidated statement of comprehensive income.

5.6 Cash and cash equivalents and restricted cash

Cash comprises cash on hand and balances with banks. Cash equivalents comprise short-term financial assets which are readily converted to cash and have an original maturity of three months or less. Restricted cash balances comprise balances of cash and cash equivalents which are restricted as to withdrawal under the terms of certain borrowings or under banking regulations. Restricted cash balances are excluded from cash and cash equivalents in the consolidated statement of cash flows.

Rules for determination of tax and other similar payments (value added tax, natural resources production tax and custom duties) are described below in accordance with Russian legislation.

5.7 Value added tax

VAT at a standard rate of 18% is payable on the difference between output VAT on sales of goods and services and recoverable input VAT charged by suppliers. Output VAT is charged on the earliest of the dates: either the date of the shipment of goods (works, services) or the date of advance payment by the buyer. Input VAT could be recovered when purchased goods (works, services) are accounted for and other necessary requirements provided by the tax legislation are met.

Export of goods and rendering certain services related to exported goods are subject to 0% VAT rate upon the submission of confirmation documents to the tax authorities. Input VAT related to export sales is recoverable. A limited list of goods, works and services are not subject to VAT. Input VAT related to non-VATable supply of goods, works and services generally should not be recovered and should be included in the value of acquired goods, works and services.

VAT related to sales and purchases is recognised in the consolidated balance sheet on a gross basis and disclosed separately as a current asset and liability, except for VAT, presented within other non-current assets. VAT, presented within other non-current assets relates to assets under construction, which is expected to be recovered in more than 12 months after the balance sheet date.

5.8 Natural resources production tax

Natural resources production tax (NRPT) on hydrocarbons, including natural gas and crude oil, is due on the basis of quantities of natural resources extracted. In particular NRPT for natural gas is defined as an amount of volume produced per fixed tax rate (RR 237 per mcm). NRPT for crude oil is defined monthly as an amount of volume produced per fixed tax rate (RR 419 per ton) adjusted depending on the monthly average market prices of the Urals blend and the RR/USD exchange rate for the preceding month. Ultimate amount of the NRPT on crude oil depends also on the depletion of certain field (the higher the depletion the lower the NRPT) and geographic location of the oil field (for certain regions zero NRPT rate maybe applied depending on volume of crude oil produced and period of field development). NRPT on gas condensate is defined as a fixed percentage from the value of the extracted mineral resource. Natural resources production tax is accrued as a tax on production and recorded within operating expenses.

5.9 Customs duties

The export of hydrocarbons outside of the Customs union, including natural gas and crude oil, is subject to export customs duties. In particular, export of natural gas outside the boundaries of the Customs union, which

(In millions of Russian Roubles)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

includes the Russian Federation, Belarus and Kazakhstan, is subject to a fixed 30% export customs duty rate levied on the customs value of the exported natural gas. Export of crude oil and oil products outside of the Customs union is also subject to the export customs duties set on a monthly basis by the Russian Government based on the monthly average price of Urals blend on world markets for the preceding month. Since 2010 such exports are subject to the basic export customs duty rate (i.e. customs duty rate applicable to export of oil outside the countries covered by the Customs Union), except for the "preferential" amount of crude oil agreed by the governments of Russia and Belarus intended for processing in Belarus and subsequent sale in the territory of Belarus and Russia, export of which outside Russian customs territory is not subject to export customs duties. Revenues are recognized net of the amount of custom duties.

5.10 Excise tax on oil products

Excise tax is applicable to certain transactions with oil products. Currently only gasoline, motor oil and diesel are subject to excise tax. Oil, gas condensate and natural gas are excluded. Within the Group, excise tax is imposed on the transfers of excisable oil products produced at group-owned refineries under a tolling arrangement to the Group company owing the product. The Group considers the excise tax on refining of oil products on a tolling basis as an operating expense. These taxes are not netted from revenue presented in the statement of comprehensive income.

5.11 Inventories

Inventories are valued at the lower of net realisable value and cost. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overhead but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses and completion costs.

5.12 Property, plant and equipment

Property, plant and equipment are carried at historical cost of acquisition or construction after deduction of accumulated depreciation and accumulated impairment. Gas and oil exploration and production activities are accounted for in accordance with the successful efforts method. Under the successful efforts method, costs of development and successful exploratory wells are capitalised. Costs of unsuccessful exploratory wells are expensed upon determination that the well does not justify commercial development. Other exploration costs are expensed as incurred. Exploration costs are classified as research and development expenses within operating expenses.

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

Property, plant and equipment include the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Interest costs on borrowings are capitalised as part of the cost of assets under construction during the period of time that is required to construct and prepare the asset for its intended use. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Depletion of acquired production licenses is calculated using the units-of-production method for each field based upon proved reserves. Oil and gas reserves for this purpose are determined in accordance with the guidelines set by Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers, the World Petroleum Congress, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers, and were estimated by independent reservoir engineers.

Depreciation of assets (other than production licenses) is calculated using the straight-line method over their estimated remaining useful lives, as follows:

	Years
Pipelines	25-33
Wells	7-40
Machinery and equipment	10-18
Buildings	30-40
Roads	20-40
Social assets	10-40

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation on wells has been calculated on cost, using the straight line method rather than, as is the more generally accepted international industry practice, on the unit-of-production method. The difference between straight line and units-of-production is not material for these consolidated financial statements. Assets under construction are not depreciated until they are placed in service.

The return to a governmental authority of state social assets (such as rest houses, housing, schools and medical facilities) retained by the Group at privatisation is recorded only upon the termination of operating responsibility for the social assets. The Group does not possess ownership rights for the assets, but records them on its balance sheet up to the return to a governmental authority because the Group controls the benefits which are expected to flow from the use of the assets and bears all associated operational and custody risks. These disposals are considered to be shareholder transactions because they represent a return of assets for the benefit of governmental authorities, as contemplated in the original privatisation arrangements. Consequently, such disposals are accounted for as a reduction directly in equity.

5.13 Impairment of non-current non-financial assets

At each balance sheet date, management assesses whether there is any indication that the recoverable value of the Group's assets has declined below the carrying value. When such a decline is identified, the carrying amount is reduced to the estimated recoverable amount which is the higher of fair value less costs to sell and value in use. Individual assets are grouped for impairment assessment purposes into the cash-generating units at the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets.

Goodwill acquired in a business combination is assessed for the recoverability of its carrying value annually irrespective of whether there is any indication that impairment exists at the balance sheet date. Goodwill acquired through business combinations is allocated to cash-generating unit (or groups of cash-generating units) that is expected to benefit from the synergies of the acquisition. In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit (including goodwill) is compared with the recoverable amount of the respective cash-generating unit.

The amount of the reduction of the carrying amount of the cash-generating unit to the recoverable value is recorded within the profit and loss section of the consolidated statement of comprehensive income in the period in which the reduction is identified. Impairments, except those relating to goodwill, are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed. Impairment losses recognized for goodwill are not reversed in subsequent reporting periods.

5.14 Borrowings

Borrowings are recognised initially at their fair value which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, borrowings are recognised at amortised cost, using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

5.15 Deferred tax

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

Deferred income tax is provided on all temporary differences arising on investments in subsidiaries, associated undertakings and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

5.16 Foreign currency transactions

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Russian Roubles, which is the Group's presentation currency. Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the official exchange rates prevailing at the reporting 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 at the reporting date are recognised as exchange gains or losses within the profit and loss section of the consolidated statement of comprehensive income.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The balance sheets of foreign subsidiaries, associated undertakings and jointly controlled entities are translated into Roubles at the official exchange rate prevailing at the reporting date. Statements of comprehensive income of foreign entities are translated at average exchange rates for the year. Exchange differences arising on the translation of the net assets of foreign subsidiaries and associated undertakings are recognised as translation differences and recorded directly in equity.

The official US dollar to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 32.20 and 30.48 as of 31 December 2011 and 2010, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 41.67 and 40.33 as of 31 December 2011 and 2010, respectively.

Exchange restrictions and currency controls exist relating to converting the RR into other currencies. The RR is not freely convertible in most countries outside of the Russian Federation.

5.17 Provisions for liabilities and charges

Provisions, including provisions for pensions, environmental liabilities and asset retirement obligations, are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. As obligations are determined, they are recognised immediately based on the present value of the expected future cash outflows arising from the obligations. Initial estimates (and subsequent revisions to the estimates) of the cost of dismantling and removing the property, plant and equipment are capitalized as property, plant and equipment.

5.18 Equity

Treasury shares

When the Group companies purchase the equity share capital of OAO Gazprom, the consideration paid including any attributable transaction costs is deducted from total equity as treasury shares until they are re-sold. When such shares are subsequently sold, any consideration received net of income taxes is included in equity. Treasury shares are recorded at weighted average cost. Gains (losses) arising from treasury share transactions are recognised directly in the consolidated statement of changes in equity, net of associated costs including taxation.

A contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount. When the financial liability is recognised initially its fair value is reclassified from equity. The premium received for a written option is added directly to equity. The Group has no such contracts in current and prior periods.

Dividends

Dividends are recognised as a liability and deducted from equity when they are recommended by the Board of Directors and approved at the General Meeting of Shareholders.

5.19 Revenue recognition

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

Sales, including gas, refined products, crude oil and gas condensate and electric and heat energy, are recognised for financial reporting purposes when products are delivered to customers and title passes and are stated net of VAT and other similar compulsory payments. Gas transportation sales are recognized when transportation services have been provided, as evidenced by delivery of gas in accordance with the contract.

Natural gas prices and gas transportation tariffs to the final consumers in the Russian Federation are established mainly by the Federal Tariffs Service. Export gas prices for sales to European countries are indexed to oil products prices, as stipulated in long-term contracts. Export gas prices for sales to Former Soviet Union countries are determined in various ways including using formulas, similar to those used in contracts with European customers.

Trading activity

Contracts to buy or sell non-financial items entered into for trading purposes and which do not meet the expected own-use requirements, such as contracts to sell or purchase commodities that can be net settled in cash or settled by entering into another contract, are recognized at fair value and associated gains or losses are recorded as Net gain (loss) from trading activity. These contracts are derivatives in the scope of IAS 39 for both measurement and disclosure.

Financial result generated by trading activities is reported as a net figure. Trading activities are mainly managed by Gazprom Marketing and Trading Ltd., a subsidiary of the Group, and relate partly to gas and oil trading and power and emission rights trading activities.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.20 Interest

Interest income and expense are recognised within the profit and loss section of the consolidated statement of comprehensive income for all interest bearing financial instruments on an accrual basis using the effective yield method. Interest income includes nominal interest and accrued discount and premium. When loans become doubtful of collection, they are written down to their recoverable amounts (using the original effective rate) and interest income is thereafter recognised based on the same effective rate of interest.

5.21 Research and development

Research expenditure is recognised as an expense as incurred. Development expenditure is recognised as intangible assets (within other non-current assets) to the extent that such expenditure is expected to generate future economic benefits. Other development expenditures are recognised as an expense as incurred. However, development costs previously recognised as an expense are not recognised as an asset in a subsequent period, even if the asset recognition criteria are subsequently met.

5.22 Employee benefits

Pension and other post-retirement benefits

The Group operates a defined benefit plan, concerning the majority employees of the Group. Pension costs are recognised using the projected unit credit method. The cost of providing pensions is accrued and charged to staff expense within operating expenses in the consolidated statement of comprehensive income reflecting the cost of benefits as they are earned over the service lives of employees. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the terms to maturity approximating the terms of the related liability.

Actuarial gains and losses on assets and liabilities are not recognised unless the cumulative unrecognised gain or loss at the end of the previous reporting period exceeds the greater of 10% of the plan assets and the DBO (‘the corridor approach’). The excess is charged or credited to the profit or loss over the average remaining service lives of employees (see Note 23).

Plan assets are measured at fair value and are subject to certain limitations (see Note 23). Fair value of plan assets is based on market prices. When no market price is available the fair value of plan assets is estimated by different valuation techniques, including discounted expected future cash flow using a discount rate that reflects both the risk associated with the plan assets and maturity or expected disposal date of these assets.

In the normal course of business the Group contributes to the Russian Federation State pension plan on behalf of its employees. Mandatory contributions to the State pension plan, which is a defined contribution plan, are expensed when incurred and are included within staff costs in operating expenses. The cost of providing other discretionary post-retirement obligations (including constructive obligations) is charged to the profit and losses of the consolidated statement of comprehensive income as they are earned over the average remaining service lives of employees.

Social expenses

The Group incurs employee costs related to the provision of benefits such as health and social infrastructure and services. These amounts principally represent an implicit cost of employing production workers and, accordingly, are charged to operating expenses in the consolidated statement of comprehensive income.

5.23 Recent accounting pronouncements

In 2011 the Group has adopted all IFRS, amendments and interpretations which are effective 1 January 2011 and which are relevant to its operations.

(a) Standards, Amendments or Interpretations effective in 2011

Amendment to IAS 32 “Financial Instruments: Presentation” (“IAS 32”), which is effective for annual periods beginning on or after 1 February 2010. The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The application of this amendment did not materially affect the Group’s consolidated financial statements.

Amendment to IAS 24 “Related Party Disclosures” (“IAS 24”), which is effective for annual periods beginning on or after 1 January 2011. IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The application of this amendment did not materially affect the Group’s consolidated financial statements.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" ("IFRIC 19"), which is effective for annual periods beginning on or after 1 July 2010. This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The application of this interpretation did not materially affect the Group's consolidated financial statements.

Amendment to IFRIC 14 "Prepayments of a Minimum Funding Requirement" ("IFRIC 14"), which is effective for annual periods beginning on or after 1 January 2011. This amendment applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The application of this amendment did not materially affect the Group's consolidated financial statements.

Amendment to IFRS 7 "Financial Instruments: Disclosures" ("IFRS 7"), which is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The application of this amendment did not materially affect the Group's consolidated financial statements.

Improvements to International Financial Reporting Standards, issued in May 2010 and effective from 1 January 2011. The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations:

Amendment to IFRS 3 "Business Combinations" ("IFRS 3") (i) requires measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) provides guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) clarifies that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3.

Amendment to IFRS 7 "Financial Instruments: Disclosures" ("IFRS 7") clarifies certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, and (iii) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period.

Amendment to IAS 1 "Presentation of Financial Statements" ("IAS 1") clarifies that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes.

Amendment to IAS 27 "Consolidated and Separate Financial Statements" ("IAS 27") clarifies the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008).

Amendment to IAS 34 "Interim Financial Reporting" ("IAS 34") adds additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments.

Amendment to IFRIC 13 "Customer Loyalty Programmes" ("IFRIC 13) clarifies measurement of fair value of award credits.

The application of these improvements did not materially affect the Group's consolidated financial statements.

All changes in the accounting policies have been made in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors" ("IAS 8") which requires retrospective application unless the new standard requires otherwise.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Standards, Amendments and Interpretations to existing Standards that are not yet effective and have not been early adopted by the Group:

Amendments to IAS 12 "Income taxes: Recovery of Underlying Assets" ("IAS 12"), issued in December 2010 and effective for annual periods beginning on or after 1 January 2012. The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC 21, "Income Taxes – Recovery of Revalued Non-Depreciable Assets", which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16 "Property, Plant and Equipment" ("IAS 16") was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The application of this amendment is not expected to materially affect the Group's consolidated financial statements.

IFRS 9 "Financial Instruments" ("IFRS 9"), issued in November 2009 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

The IASB has published an amendment to IFRS 9 that delays the effective date from annual periods beginning on or after 1 January 2013 to 1 January 2015. This amendment is a result of the Board extending its timeline for completing the remaining phases of its project to replace IAS 39 beyond June 2011. The Group is currently assessing the impact of the standard on the consolidated financial statements.

IFRS 10 "Consolidated financial statements" ("IFRS 10"), issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the standard on the consolidated financial statements.

IFRS 11 "Joint arrangements" ("IFRS 11"), issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, replaces IAS 31 "Interests in Joint Ventures" ("IAS 31") and SIC 13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of "types" of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the standard on the consolidated financial statements.

IFRS 12 "Disclosure of interest in other entities" ("IFRS 12"), issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 27 "Consolidated and Separate Financial Statements" and IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on the consolidated financial statements.

IFRS 13 "Fair value measurement" ("IFRS 13"), issued in May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on the consolidated financial statements.

Amended IAS 27 "Separate Financial Statements" ("IAS 27"), issued May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The application of this amendment is not expected to materially affect the Group's consolidated financial statements.

Amended IAS 28 "Investments in Associates and Joint Ventures" ("IAS 28"), issued May 2011 and effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, prescribes the accounting for investments in associates and contains the requirements for the application of the equity method to investments in associates and joint ventures. The Group is currently assessing the impact of the standard on the consolidated financial statements.

Amendments to IAS 1 "Presentation of financial statements" ("IAS 1"), issued June 2011and effective for annual periods beginning on or after 1 July 2012, changes the disclosure of items presented in other comprehensive income (OCI). The amendments require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group is currently assessing the impact of the standard on the consolidated financial statements.

Amended IAS 19 "Employee benefits" ("IAS 19"), issued June 2011 and effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The Group is currently assessing the impact of the standard on the consolidated financial statements.

6 CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as well as disclosures. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from our estimates, and our estimates can be revised in the future, either negatively or positively, depending upon the outcome or changes in expectations based on the facts surrounding each estimate.

Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are reported below.

6.1 Consolidation of subsidiaries

Management judgment is involved in the assessment of control and the consolidation of certain affiliated entities in the Group's consolidated financial statements.

6.2 Tax legislation and uncertain tax position

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 41).

The Group's uncertain tax positions (potential tax gains and losses) are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management based on the interpretation of current tax laws. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle tax obligations at the balance sheet date.

6 CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

6.3 Assumptions to determine amount of provisions

Impairment provision for accounts receivable

The impairment provision for accounts receivable is based on the Group's assessment of the collectability and recoverable amount of specific customer accounts, being the present value of expected cash flows. If there is deterioration in a major customer's creditworthiness or actual defaults are higher or lower than the estimates, the actual results could differ from these estimates. The charges (and releases) for impairment of accounts receivable may be material (see Note 10).

Impairment of Property plant and equipment and goodwill

The estimation of forecast cash flows for the purposes of impairment testing involves the application of a number of significant judgements and estimates to certain variables including volumes of production and extraction, prices on gas, oil, oil products and electrical power, operating costs, capital investment, hydrocarbon reserves estimates, and macroeconomic factors such as inflation and discount rates.

In addition, judgement is applied in determining the cash generating units assessed for impairment. For the purposes of the goodwill impairment test, management considers gas production, transportation and distribution activities as part of one Gas cash generating unit and monitors associated goodwill at this level. The pipelines that are part of the Gas cash generating unit are utilized primarily for the Group activities and represent the only transit route for the gas produced. Operationally, the gas produced is transported through the Group's Russian and Belorussian pipelines and distributed to meet demands of customers in Russia and then in the Former Soviet Union and Europe and underground storage facilities. The interrelationship of these activities forming the Gas cash generating unit provides the basis for capturing the benefits from synergies resulting from business combinations, such as the acquisition of OAO Beltransgaz (see Note 33).

The value in use of assets or cash-generating units related to oil and gas operations are based on the cash flows expected from oil and gas production volumes, which include both proved reserves as well as certain volumes of those that are expected to constitute proved and probable reserves in the future. Impairment charges are given in Note 12.

Accounting for provisions

Accounting for impairment includes provisions against capital construction projects, financial assets, other non-current assets and inventory obsolescence. Because of the Group's operating cycle, certain significant decisions about capital construction projects are made after the end of the calendar year. Accordingly, the Group typically has larger impairment charges or releases in the fourth quarter of the fiscal year as compared to other quarters.

6.4 Site restoration and environmental costs

Site restoration costs that may be incurred by the Group at the end of the operating life of certain of the Group's facilities and properties are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The cost is depreciated through the profit and losses of consolidated statement of comprehensive income on a straight-line basis over the asset's productive life. Changes in the measurement of an existing site restoration obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period. IFRS prescribes the recording of liabilities for these costs. Estimating the amounts and timing of those obligations that should be recorded requires significant judgment. This judgment is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration are subject to change because of change in laws and regulations, and their interpretation.

6.5 Useful lives of property, plant and equipment

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

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2011 would be an increase by RR 30,680 or a decrease by RR 25,101 (2010: increase by RR 26,991 or decrease by RR 21,991).

Based on the terms included in the licenses and past experience, management believes hydrocarbon production licenses will be extended past their current expiration dates at insignificant additional costs.

6 CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

Because of the anticipated license extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

6.6 Fair value estimation for financial instruments

The fair values of energy trading contracts, commodity futures and swaps are based on market quotes on measurement date (Level 1 in accordance with the valuation hierarchy). Customary valuation models are used to value financial instruments which are not traded in active markets. The fair values are based on inputs that are observable either directly or indirectly (Level 2 in accordance with the valuation hierarchy).The fair values of Emission Reduction Purchase Agreements (“ERPA“) for the acquisition of post 2012 emission rights generating from pre-2012 registered Clean Development Mechanism (“CDM”) projects are based on the inputs that are not based on observable market data (Level 3 in accordance with the valuation hierarchy). Where the valuation technique employed incorporates significant unobservable input data such as these long-term price assumptions, contracts have been categorised as Level 3 in accordance with the valuation hierarchy (see Note 22).

The assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement of assets and liabilities within the levels of the fair value hierarchy.

6.7 Fair value estimation for acquisitions

In accounting for business combinations, the purchase price paid to acquire a business is allocated to its assets and liabilities based on the estimated fair values of the assets acquired and liabilities assumed as of the date of acquisition. The excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired is recorded as goodwill. A significant amount of judgment is involved in estimating the individual fair values of property, plant and equipment and identifiable intangible assets. We use all available information to make these fair value determinations and, for certain acquisitions, engage third-party consultants for assistance.

The estimates used in determining fair values are based on assumptions believed to be reasonable but which are inherently uncertain. Accordingly, actual results may differ from the projected results used to determine fair value.

6.8 Accounting for plan assets and pension liabilities

Pension plan liabilities are estimated using actuarial techniques and assumptions as disclosed in Note 23. Actual results may differ from the estimates, and the Group’s estimates can be revised in the future based on changes on economic and financial conditions.

In addition, certain plan assets included in NPF Gazfund are estimated using the fair value estimation techniques. Management makes judgments with respect to the selection of valuation model applied, the amount and timing of cash flows forecasts or other assumptions such as discount rates. The recognition of plan assets is limited by the estimated present value of future benefits, which are available to the Group in relation to this plan. These benefits are determined using actuarial techniques and assumptions. The impact of the change in the limitation of the plan assets in accordance with IAS 19 is disclosed in Note 23. The value of plan assets and the limit are subject to revision in the future.

7 SEGMENT INFORMATION

The Group operates as a vertically integrated business with substantially all external gas sales generated by the Distribution segment.

The Board of Directors and Management Committee of OAO Gazprom (chief operating decision maker (CODM)) provide general management of the Group, an assessment of the operating results and allocate resources using different internal financial information. Based on that the following reportable segments within the Group were determined:

- Production of gas – exploration and production of gas;
- Transport – transportation of gas;
- Distribution – sales of gas within Russian Federation and abroad;
- Gas storage – storage of extracted and purchased gas in underground gas storages;
- Production of crude oil and gas condensate – exploration and production of oil and gas condensate, sales of crude oil and gas condensate;
- Refining – processing of oil, gas condensate and other hydrocarbons, and sales of refined products; and
- Electric and heat energy generation and sales.

Other activities have been included within “All other segments” column.

(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

The inter-segment sales mainly consist of:

- Production of gas – sales of gas to the Distribution and Refining segments;
- Transport – rendering transportation services to the Distribution segment;
- Distribution – sales of gas to the Transport segment for own needs and to the Electric and heat energy generation and sales segment;
- Gas storage – sales of gas storage services to Distribution segment;
- Production of crude oil and gas condensate - sales of oil and gas condensate to the Refining segment for further processing; and
- Refining – sales of refined hydrocarbon products to other segments.

Internal transfer prices, mostly for Production of gas, Transport and Gas storage segments, are established by the management of the Group with the objective of providing specific funding requirements of the individual subsidiaries within each segment.

The CODM assesses the performance, assets and liabilities of the operating segments based on the internal financial reporting. The effects of certain non-recurring transactions and events, such as business acquisitions, and the effects of some adjustments that may be considered necessary to reconcile the internal financial information to IFRS consolidated financial statements are not included within the operating segments which are reviewed by the CODM on a central basis. Gains and losses on available-for-sale financial assets, and financial income and expenses are also not allocated to the operating segments.

	Production of gas	Transport	Distribution	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Year ended 31 December 2011									
Total segment revenues	388,537	790,629	3,046,082	29,658	553,734	979,981	349,028	224,101	6,361,750
Inter-segment sales	381,481	677,634	238,290	28,583	318,302	6,955	-	-	1,651,245
External sales	7,056	112,995	2,807,792	1,075	235,432	973,026	349,028	224,101	4,710,505
Segment result	31,001	72,496	1,084,551	4,351	116,997	122,811	54,449	(16,556)	1,470,100
Depreciation	87,214	265,694	7,717	9,805	44,521	25,331	19,034	17,369	476,685
Share of net income (loss) of associated undertakings and jointly controlled entities	957	(10,932)	21,553	-	65,511	1,860	-	20,100	99,049
Year ended 31 December 2010									
Total segment revenues	340,918	651,483	2,367,366	25,823	446,507	717,607	295,436	174,962	5,020,102
Inter-segment sales	334,524	558,852	187,555	24,892	250,433	8,545	-	-	1,364,801
External sales	6,394	92,631	2,179,811	931	196,074	709,062	295,436	174,962	3,655,301
Segment result	45,102	37,309	715,260	3,860	77,064	84,901	28,753	(4,928)	987,321
Depreciation	78,349	260,733	5,618	9,153	43,205	22,441	18,631	16,584	454,714
Share of net income (loss) of associated undertakings and jointly controlled entities	7,093	(16,097)	19,390	-	40,226	1,530	-	24,378	76,520

A reconciliation of total operating segment results to total profit before profit tax in the consolidated statement of comprehensive income is provided as follows:

Note		For the year ended 31 December 2011	2010
	Segment result	1,470,100	987,321
	Difference in depreciation	201,501	205,021
	Income (expenses) associated with pension obligations	3,811	(58,473)
37	Gain from disposal of interest in OAO NOVATEK	-	77,375
27	Finance income (expense), net	(77,335)	2,694
	Gains on disposal of available-for-sale financial assets	1,379	3,292
13	Share of net income (loss) of associated undertakings and jointly controlled entities	99,049	76,520
	Other	(18,569)	(20,047)
	Profit before profit tax	**1,679,936**	**1,273,703**

(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

A reconciliation of reportable segments' external sales to sales in the consolidated statement of comprehensive income is provided as follows:

	For the year ended 31 December	
	2011	**2010**
External sales for reportable segments	4,486,404	3,480,339
External sales for other segments	224,101	174,962
Total external segment sales	**4,710,505**	**3,655,301**
Differences in external sales	(73,415)	(58,247)
Total sales per the statement of comprehensive income	**4,637,090**	**3,597,054**

Substantially all of the Group's operating assets are located in the Russian Federation. Segment assets consist primarily of property, plant and equipment, accounts receivable and prepayments, investments in associated undertakings and jointly controlled entities, and inventories. Cash and cash equivalents, restricted cash, VAT recoverable, financial assets and other current and non-current assets are not considered to be segment assets but rather are managed on a central basis.

	Production of gas	**Transport**	**Distribution**	**Gas storage**	**Production of crude oil and gas condensate**	**Refining**	**Electric and heat energy generation and sales**	**All other segments**	**Total**
31 December 2011									
Segment assets	1,725,762	4,972,244	1,223,035	206,126	1,272,339	1,086,188	560,182	472,028	11,517,904
Investments in associated undertakings and jointly controlled entities	27,914	56,368	98,769	-	403,275	55,629	48	73,963	715,966
Capital additions	246,635	740,910	48,802	19,978	79,102	115,642	69,447	31,074	1,351,590
31 December 2010									
Segment assets	1,466,058	4,000,952	1,048,594	169,146	1,094,309	819,440	487,046	643,132	9,728,677
Investments in associated undertakings and jointly controlled entities	23,600	112,892	91,503	-	435,890	36,964	48	56,260	757,157
Capital additions	215,236	407,571	37,578	17,355	95,289	78,712	46,239	22,153	920,133

Reportable segments' assets are reconciled to total assets in the consolidated balance sheet as follows:

	31 December 2011	**31 December 2010**
Segment assets for reportable segments	11,045,876	9,085,545
Other segments' assets	472,028	643,132
Total segment assets	**11,517,904**	**9,728,677**
Differences in property, plant and equipment, net*	(2,085,209)	(1,709,952)
Loan interest capitalised	264,167	192,154
Decommissioning costs	75,484	65,017
Cash and cash equivalents	501,344	440,786
Restricted cash	3,877	3,669
Short-term financial assets	23,991	7,435
VAT recoverable	303,454	158,390
Other current assets	216,044	171,976
Available-for-sale long-term financial assets	181,138	191,417
Other non-current assets	527,627	498,663
Inter-segment assets	(801,796)	(659,640)
Other	172,671	147,401
Total assets per the balance sheet	**10,900,696**	**9,235,993**

* The difference in property, plant and equipment relates to adjustments of statutory fixed assets to comply with IFRS, such as reversal of revaluation of fixed assets recorded for statutory purposes or accounting for historical hyperinflation which is not recorded under statutory requirements.

Segment liabilities mainly comprise operating liabilities. Profit tax payable, deferred tax liabilities, provisions for liabilities and charges, short-term and long-term borrowings, including current portion of long-term borrowings, short-term and long-term promissory notes payable and other non-current liabilities are managed on a central basis.

(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

	Production of gas	Transport	Distri-bution	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy genera-tion and sales	All other segments	Total
Total liabilities									
31 December 2011	129,348	421,721	468,773	7,940	263,581	172,594	33,046	137,388	1,634,391
31 December 2010	105,270	306,784	433,569	7,309	228,315	123,422	32,275	148,954	1,385,898

Reportable segments' liabilities are reconciled to total liabilities in the consolidated balance sheet as follows:

	31 December 2011	31 December 2010
Segment liabilities for reportable segments	1,497,003	1,236,944
Other segments' liabilities	137,388	148,954
Total segments liabilities	**1,634,391**	**1,385,898**
Current profit tax payable	44,036	45,649
Short-term borrowings and current portion of long-term borrowings	366,868	191,052
Long-term borrowings	1,173,294	1,124,395
Provisions for liabilities and charges	206,734	200,040
Deferred tax liabilities	402,728	333,143
Other non-current liabilities	47,694	30,793
Dividends	1,888	2,258
Inter-segment liabilities	(801,796)	(659,640)
Other	63,868	46,044
Total liabilities per the balance sheet	**3,139,705**	**2,699,632**

8 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Balances included within cash and cash equivalents in the consolidated balance sheet represent cash on hand and balances with banks and term deposits with original maturity of three months or less.

	31 December 2011	31 December 2010
Cash on hand and bank balances payable on demand	390,381	339,460
Term deposits with original maturity of three months or less	110,963	101,326
	501,344	**440,786**

Total interest paid amounted to RR 87,457 and RR 95,820 for the years ended 31 December 2011 and 2010, respectively.

Restricted cash balances include cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings.

The table below analyses credit quality of banks at which the Group holds cash and cash equivalents by external credit ratings, published by Standard & Poor's and other credit agencies. The table below uses Standard & Poor's rating classification:

	31 December 2011	31 December 2010
Cash on hand	533	261
External credit rating of BB and above	422,317	400,038
External credit rating of B	56,403	20,073
No external credit rating	22,091	20,414
Total cash and cash equivalents	**501,344**	**440,786**

Sovereign credit rating of the Russian Federation published by Standard & Poor's is BBB (stable outlook) (by international scale in foreign currency).

(In millions of Russian Roubles)

9 SHORT-TERM FINANCIAL ASSETS

For short-term financial assets carried at fair value, the levels in the fair value hierarchy into which the fair values are categorized are as follows:

	31 December							
	2011				2010			
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	**Total**	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	**Total**
Financial assets held for trading:	**4,053**	**-**	**-**	**4,053**	**2,599**	**90**	**-**	**2,689**
Bonds	711	-	-	711	328	90	-	418
Equity securities	3,342	-	-	3,342	2,271	-	-	2,271
Available-for-sale financial assets:	**17,474**	**2,464**	**-**	**19,938**	**-**	**4,746**	**-**	**4,746**
Money market fund	16,761	-		16,761				
Bonds	713	-	-	713	-	-	-	-
Promissory notes (net of impairment provision of RR nil and RR 427 as of 31 December 2011 and 2010, respectively)	-	2,464	-	2,464	-	4,746	-	4,746
Total short-term financial assets	**21,527**	**2,464**	**-**	**23,991**	**2,599**	**4,836**	**-**	**7,435**

Information about credit quality of short-term financial assets (excluding equity securities) is presented in the table below with reference to external credit ratings of related counterparties or instruments (published by Standard & Poor's and other rating agencies). The table below uses Standard & Poor's rating classification:

	31 December	
	2011	2010
External credit rating of BB and above	19,814	4,621
External credit rating of B	835	298
No external credit rating	-	245
	20,649	**5,164**

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December	
	2011	2010
Financial assets		
Trade receivables (net of impairment provision of RR 207,981 and RR 162,374 as of 31 December 2011 and 2010, respectively)	537,323	400,252
Other receivables (net of impairment provision of RR 14,043 and RR 12,641 as of 31 December 2011 and 2010, respectively)	115,459	139,351
	652,782	539,603
Non-financial assets		
Advances and prepayments (net of impairment provision of RR 897 and RR 464 as of 31 December 2011 and 2010, respectively)	131,271	218,297
Total accounts receivable and prepayments	**784,053**	**757,900**

The estimated fair value of short-term accounts receivable approximates their carrying value.

As of 31 December 2011 and 2010 RR 320,246 and RR 235,782 of trade receivables, net of impairment provision, respectively, are denominated in foreign currencies, mainly US dollar and Euro.

Other receivables are mainly represented by accounts receivable from Russian customers.

As of 31 December 2011 and 2010, trade receivables of RR 47,490 and RR 22,570, respectively, were past due but not impaired. These mainly relate to a number of customers for whom there is no recent history of material default. The ageing analysis of these trade receivables is as follows:

(In millions of Russian Roubles)

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

Ageing from the due date	**31 December 2011**	**31 December 2010**
Up to 6 months	21,080	7,722
From 6 to 12 months	16,189	2,358
From 1 to 3 years	9,836	12,374
More than 3 years	385	116
	47,490	**22,570**

As of 31 December 2011 and 2010, trade receivables of RR 214,364 and RR 162,924, respectively, were impaired and provided for. The amount of the provision was RR 207,981 and RR 162,374 as of 31 December 2011 and 2010, respectively. The individually impaired receivables mainly relate to gas sales to certain Russian regions and FSU countries, which are in difficult economic situations. In the management's view a portion of the receivables will be recovered. The ageing analysis of these receivables is as follows:

Ageing from the due date	**Gross book value 31 December**		**Provision 31 December**		**Net book value 31 December**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Up to 6 months	33,298	22,184	(28,117)	(22,105)	5,181	79
From 6 to 12 months	24,426	15,758	(24,232)	(15,735)	194	23
From 1 to 3 years	73,095	51,223	(72,692)	(50,881)	403	342
More than 3 years	83,545	73,759	(82,940)	(73,653)	605	106
	214,364	**162,924**	**(207,981)**	**(162,374)**	**6,383**	**550**

As of 31 December 2011 and 2010, trade receivables of RR 483,450 and RR 377,132, respectively, were neither past due nor impaired. Management's experience indicates customer payment histories vary by geography. The credit quality of these assets can be analysed as follows:

	31 December 2011	**31 December 2010**
Europe and other countries gas, crude oil, gas condensate and refined products debtors	242,825	183,652
FSU (excluding Russian Federation) gas, crude oil, gas condensate and refined products debtors	81,106	48,226
Domestic gas, crude oil, gas condensate and refined products debtors	94,280	96,012
Electric and heat energy sales debtors	25,377	22,815
Transportation services debtors	4,165	1,895
Other trade debtors	35,697	24,532
Total trade receivables neither past due, nor impaired	**483,450**	**377,132**

Movements of the Group's provision for impairment of trade and other receivables are as follows:

	Trade receivables Year ended 31 December		**Other receivables Year ended 31 December**	
	2011	**2010**	**2011**	**2010**
Impairment provision at the beginning of the year	162,374	126,977	12,641	25,063
Impairment provision accrued*	56,986	38,755	3,237	2,678
Disposal of subsidiaries	-	-	-	(6,330)
Write-off of receivables during the year**	(2,037)	(3,056)	(691)	(7,980)
Release of previously created provision*	(9,342)	(302)	(1,144)	(790)
Impairment provision at the end of the year	**207,981**	**162,374**	**14,043**	**12,641**

* The accrual and release of provision for impaired receivables and effect of discounting have been included in impairment provision and other provisions in the consolidated statement of comprehensive income.

** If there is no probability of cash receipt for the impaired accounts receivable which were previously provided for, the amount of respective accounts receivable is written-off by means of that provision.

(In millions of Russian Roubles)

11 INVENTORIES

	31 December 2011	31 December 2010
Gas in pipelines and storage	210,384	164,448
Materials and supplies (net of an obsolescence provision of RR 4,061 and RR 2,317 as of 31 December 2011 and 2010, respectively)	102,951	100,025
Goods for resale (net of an obsolescence provision of RR 270 and RR 268 as of 31 December 2011 and 2010, respectively)	36,491	19,990
Crude oil and refined products	57,704	41,276
	407,530	**325,739**

12 PROPERTY, PLANT AND EQUIPMENT

	Pipelines	Wells	Machinery and equipment	Buildings and roads	Production licenses	Social assets	Assets under construction	Total
As of 31.12.09								
Cost	1,863,068	813,580	1,606,630	1,559,210	450,178	78,487	1,084,644	7,455,797
Accumulated depreciation	(918,867)	(293,743)	(687,515)	(537,469)	(91,952)	(27,028)	-	(2,556,574)
Net book value as of 31.12.09	**944,201**	**519,837**	**919,115**	**1,021,741**	**358,226**	**51,459**	**1,084,644**	**4,899,223**
Depreciation	(48,912)	(29,954)	(96,359)	(54,576)	(16,557)	(2,425)	-	(248,783)
Additions	39	10	12,420	3,223	1,394	1,713	996,358	1,015,157
Acquisition of subsidiaries	-	-	4,750	9,521	-	-	232	14,503
Translation differences	393	55	136	396	(6)	20	868	1,862
Transfers	96,153	101,831	185,715	169,124	930	6,656	(560,409)	-
Disposals	(579)	(3,168)	(24,016)	(7,959)	(2,290)	(2,448)	(32,649)	(73,109)
Disposals of subsidiaries	-	(1,105)	(1,012)	(8,459)	(98,148)	(3)	(13,076)	(121,803)
Charge of impairment provision	-	-	-	-	-	-	(621)	(621)
Net book value as of 31.12.10	**991,295**	**587,506**	**1,000,749**	**1,133,011**	**243,549**	**54,972**	**1,475,347**	**5,486,429**
As of 31.12.10								
Cost	1,959,053	910,240	1,787,674	1,722,143	352,058	82,818	1,475,347	8,289,333
Accumulated depreciation	(967,758)	(322,734)	(786,925)	(589,132)	(108,509)	(27,846)	-	(2,802,904)
Net book value as of 31.12.10	**991,295**	**587,506**	**1,000,749**	**1,133,011**	**243,549**	**54,972**	**1,475,347**	**5,486,429**
Depreciation	(51,286)	(32,946)	(110,621)	(60,907)	(17,574)	(2,783)	-	(276,117)
Additions	77	22,848	40,076	20,125	23,798	2,850	1,362,796	1,472,570
Acquisition of subsidiaries	32,970	-	31,150	14,921	-	49	763	79,853
Translation differences	(6)	610	847	1,470	28	(35)	1,248	4,162
Transfers	332,165	63,522	354,185	240,392	-	5,204	(995,468)	-
Disposals	(124)	(4,185)	(12,064)	(14,550)	(286)	(1,047)	(16,578)	(48,834)
Release of impairment provision	-	-	-	-	-	-	512	512
Net book value as of 31.12.11	**1,305,091**	**637,355**	**1,304,322**	**1,334,462**	**249,515**	**59,210**	**1,828,620**	**6,718,575**
As of 31.12.11								
Cost	2,324,242	993,353	2,204,383	1,982,756	375,598	89,055	1,828,620	9,798,007
Accumulated depreciation	(1,019,151)	(355,998)	(900,061)	(648,294)	(126,083)	(29,845)	-	(3,079,432)
Net book value as of 31.12.11	**1,305,091**	**637,355**	**1,304,322**	**1,334,462**	**249,515**	**59,210**	**1,828,620**	**6,718,575**

At each balance sheet date management assesses whether there is any indication that the recoverable value has declined below the carrying value of the property, plant and equipment. As of 31 December 2011 and 2010 operating assets are shown net of provision for impairment of RR 54,387.

Assets under construction are presented net of a provision for impairment of RR 93,538 and RR 96,146 as of 31 December 2011 and 2010, respectively. Charges for impairment provision of assets under construction primarily relate to projects that have been indefinitely suspended.

Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatization with a net book value of RR 901 and RR 1,354 as of 31 December 2011 and 2010, respectively.

Included in additions above is capitalized interest of RR 58,507 and RR 62,392 for the years ended 31 December 2011 and 2010, respectively. Capitalization rates of 7.11% and 7.86% were used representing the weighted average borrowing cost for the years ended 31 December 2011 and 2010, respectively.

(In millions of Russian Roubles)

12 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation expenses in the consolidated statement of comprehensive income do not include depreciation which is considered as a cost of self-constructed assets (and thus capitalized rather than expensed) in amount of RR 633 and RR 2,644 for the years ended 31 December 2011 and 2010, respectively.

13 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES

		Carrying value as of 31 December		Group's share of the profit (loss) for	
Notes		**2011**	**2010**	**2011**	**2010**
39	OAO NGK Slavneft and its subsidiaries	143,449	151,826	304	2,812
39,40	Sakhalin Energy Investment Company Ltd.*	128,649	153,871	59,214	31,336
39	OAO Tomskneft VNK and its subsidiaries	63,209	65,286	3,128	1,651
39	Gazprombank Group	60,868	50,362	19,207	24,386
35,39	Salym Petroleum Development N.V.	41,300	38,395	2,905	2,462
39	WINGAS GmbH & Co. KG	40,068	41,798	3,768	4,125
39	OAO Gazprom neftekhim Salavat	39,381	19,940	1,149	668
39,40	Nord Stream AG	36,692	39,066	(428)	(1,587)
39	TOO KazRosGaz	35,663	27,034	7,896	9,521
38	OOO Yamal razvitie and its subsidiaries**	24,642	27,984	(1,567)	(139)
	Shtokman Development AG	20,784	17,741	(94)	(442)
39,40	SGT EuRoPol GAZ S.A.	16,253	17,314	141	(171)
	Wintershall AG	11,740	11,003	889	2,023
	ZAO Nortgaz	5,521	5,023	804	783
39	AO Latvijas Gaze	4,579	4,255	536	529
40	ZAO Achimgaz	4,520	3,054	1,466	1,404
39	AO Gazum	4,123	4,040	708	735
39	AO Lietuvos dujos	3,023	3,011	420	714
39,40	Blue Stream Pipeline Company B.V.	2,682	2,093	561	475
33,39	OAO Beltransgaz***	-	53,678	(11,206)	(14,814)
37,39	OAO NOVATEK****	-	-	-	7,553
	Other (net of provision for impairment of RR 1,929 and RR 2,096 as of 31 December 2011 and 31 December 2010, respectively)	28,820	20,383	9,248	2,496
		715,966	**757,157**	**99,049**	**76,520**

* Investments in Sakhalin Energy Investment Company Ltd. decreased mainly due to redemption of its redeemable preference shares and dividends paid.

** In July 2010 the Group set up OOO Yamal razvitie – jointly controlled entity on a fifty-fifty basis with OAO NOVATEK. As a result of disposal of 51% interest in OOO SeverEnergiya to OOO Yamal razvitie in November 2010, the Group retained effective 25.5% interest in OOO SeverEnergiya. (see Note 38).

*** In December 2011 the Group acquired 50% interest in OAO Beltransgaz. As a result the Group obtained control over OAO Beltransgaz (see Note 33).

**** In December 2010 the Group sold 9.4% interest in OAO NOVATEK. As a result of that transaction, Group ceased to exercise significant influence over OAO NOVATEK and accounted for retained interest within available-for-sale long-term financial assets (see Note 37).

(In millions of Russian Roubles)

13 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES (continued)

	Year ended 31 December	
	2011	2010
Balance at the beginning of the reporting period	**757,157**	**794,705**
Increase in share of OAO Gazprom neftekhim Salavat	19,008	-
Increase in share of OAO Beltransgaz	-	18,844
Share of net income of associated undertakings and jointly controlled entities	99,049	76,520
Distribution from associated undertakings and jointly controlled entities	(53,849)	(59,776)
Acquisition of the controlling interest in OAO Beltransgaz (see Note 33)	(34,301)	-
Redemption of preference shares of Sakhalin Energy Investment Company Ltd.	(64,375)	(34,401)
Disposal of interest in OAO NOVATEK (see Note 37)	-	(84,978)
Contribution in OOO Yamal razvitie (see Note 38)	-	28,123
Change in share of other comprehensive (loss) income of associated undertakings and jointly controlled entities	(19,302)	4,100
Translation differences	(2,667)	(7,048)
Other acquisitions and disposals	15,246	21,068
Balance at the end of the reporting period	**715,966**	**757,157**

Summarised financial information on the Group's principal associated undertakings and jointly controlled entities is as follows.

The values, disclosed in the tables, represent total assets, liabilities, revenues, profit (loss) of the Group's principal associated undertakings and jointly controlled entities and not the Group's share.

	Assets	Liabilities	Revenues	Profit (loss)
31 December 2011				
Gazprombank Group*	2,477,668	2,234,728	134,162	42,207
Sakhalin Energy Investment Company Ltd.	668,582	394,495	253,994	118,429
OAO NGK Slavneft and its subsidiaries	585,187	313,952	159,526	610
Nord Stream AG	286,959	212,990	3,925	(840)
WINGAS GmbH & Co. KG	223,684	183,680	347,452	13,419
OOO Yamal razvitie and its subsidiaries	171,194	60,686	-	(3,380)
OAO Tomskneft VNK and its subsidiaries	124,517	66,399	103,591	5,965
OAO Gazprom neftekhim Salavat	87,249	64,423	120,069	4,085
TOO KazRosGaz	73,388	2,064	32,078	15,791
Blue Stream Pipeline Company B.V.	71,338	60,750	8,181	2,242
SGT EuRoPol GAZ S.A.	47,397	13,539	11,127	294
Shtokman Development AG	45,483	4,727	-	145
Salym Petroleum Development N.V.	41,182	19,914	63,509	6,510
Wintershall AG	38,302	25,692	29,707	1,813
AO Gazum	35,150	18,657	51,461	2,833
AO Lietuvos dujos	32,562	7,770	21,856	1,134
AO Latvijas Gaze	27,636	7,046	20,463	1,574
ZAO Nortgaz	18,628	7,803	6,612	1,869
ZAO Achimgaz	12,183	3,145	5,500	2,969
OAO Beltransgaz**	-	-	189,315	(3,151)

* Presented revenue of Gazprombank Group is reported according to the Group accounting policy and includes revenue of media business, machinery business and other non-banking companies.

** The losses of OAO Beltransgaz for the year ended 31 December 2011 are disclosed until the date of acquisition of controlling share (see Note 33).

(In millions of Russian Roubles)

13 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES (continued)

	Assets	Liabilities	Revenues	Profit (loss)
31 December 2010				
Gazprombank Group*	1,951,621	1,729,740	95,091	56,881
Sakhalin Energy Investment Company Ltd.	635,952	328,714	184,802	68,435
OAO NGK Slavneft and its subsidiaries	616,075	308,500	132,395	5,610
Nord Stream AG	200,773	122,148	1	(2,035)
WINGAS GmbH & Co. KG	177,515	135,063	280,942	13,229
OOO Yamal razvitie and its subsidiaries**	147,264	37,548	-	(545)
OAO Tomskneft VNK and its subsidiaries	123,462	63,788	81,446	3,302
OAO Gazprom neftekhim Salavat	75,114	53,155	92,680	2,867
OAO Beltransgaz	69,257	31,360	139,557	6,148
Blue Stream Pipeline Company B.V.	68,844	60,612	8,249	1,901
TOO KazRosGaz	55,627	1,558	36,052	19,043
SGT EuRoPol GAZ S.A.	50,932	14,861	11,126	(375)
Shtokman Development AG	40,536	5,749	-	(624)
Salym Petroleum Development N.V.	37,426	24,321	48,124	4,924
Wintershall AG	34,305	22,972	65,403	4,129
AO Gazum	33,358	17,196	51,936	2,940
AO Lietuvos dujos	31,643	7,363	21,109	1,926
AO Latvijas Gaze	24,423	5,164	20,754	1,555
ZAO Nortgaz	13,224	3,376	5,030	1,662
ZAO Achimgaz	10,153	4,044	4,725	2,808

* Presented revenue of Gazprombank Group is reported according to the Group accounting policy and includes revenue of media business, machinery business and other non-banking companies. Profit of Gazprombank Group includes profit from discontinued operations (petrochemical business) in amount RR 26,549.

** The losses of OOO Yamal razvitie and its subsidiaries, for the year ended 31 December 2010 are disclosed from the date of acquisition (see Note 38).

The estimated fair values of investments in associated undertakings and jointly controlled entities for which there are published price quotations were as follows:

	31 December 2011	31 December 2010
OAO Gazprom neftekhim Salavat	60,702	20,046
AO Latvijas Gaze	4,594	3,735
AO Lietuvos dujos	4,380	5,134

Principal associated undertakings and jointly controlled entities

Entities	Country	Nature of operations	% of ordinary shares held as of 31 December* 2011	2010
ZAO Achimgaz	Russia	Exploration and production of gas and gas condensate	50	50
OAO Beltransgaz**	Belarus	Transportation and gas supply	-	50
Bosphorus Gaz Corporation A.S.	Turkey	Gas distribution	51	51
WINGAS GmbH & Co. KG	Germany	Transportation and gas distribution	50	50
Wintershall AG	Germany	Production of oil and gas distribution	49	49
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	Germany	Gas distribution	50	50
Gaz Project Development Central Asia AG	Switzerland	Gas production	50	50
OAO Gazprombank	Russia	Banking	46	45
AO Gazum	Finland	Gas distribution	25	25
Blue Stream Pipeline Company B.V.	Netherlands	Construction, gas transportation	50	50
SGT EuRoPol GAZ S.A.	Poland	Transportation and gas distribution	48	48

(In millions of Russian Roubles)

13 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES (continued)

Entities	Country	Nature of operations	% of ordinary shares held as of 31 December* 2011	2010
TOO KazRosGaz	Kazakhstan	Gas processing and sales of gas and refined products	50	50
AO Latvijas Gaze	Latvia	Transportation and gas distribution	34	34
AO Lietuvos dujos	Lithuania	Transportation and gas distribution	37	37
AO Moldovagaz	Moldova	Transportation and gas distribution	50	50
Nord Stream AG	Switzerland	Construction, gas transportation	51	51
ZAO Nortgaz	Russia	Exploration and sales of gas and gas condensate	51	51
AO Overgaz Inc.	Bulgaria	Gas distribution	50	50
ZAO Panrusgaz	Hungary	Gas distribution	40	40
AO Prometheus Gas	Greece	Gas distribution, construction	50	50
RosUkrEnergo AG	Switzerland	Gas distribution	50	50
OAO Gazprom neftekhim Salavat ***	Russia	Processing and distribution of refined products	69	50
Salym Petroleum Development N.V.	Netherlands	Oil production	50	50
Sakhalin Energy Investment Company Ltd.	Bermuda Islands	Oil production, production of LNG	50	50
OAO NGK Slavneft	Russia	Production of oil, sales of oil and refined products	50	50
OAO Tomskneft VNK	Russia	Oil production	50	50
AO Turusgaz	Turkey	Gas distribution	45	45
Shtokman Development AG	Switzerland	Exploration and production of gas	51	51
OOO Yamal razvitie****	Russia	Investment activities, assets management	50	50

*Cumulative share of Group companies in charter capital of investments.

** In December 2011 the Group acquired 50% interest in OAO Beltransgaz. As a result the Group obtained control over OAO Beltransgaz (see Note 33).

*** In November and December 2011 the Group acquired 19% interest in OAO Gazprom neftekhim Salavat. As a result, the Group increased its interest in OAO Gazprom neftekhim Salavat up to 69%. Investment in OAO Gazprom neftekhim Salavat continues to be accounted under the equity method of accounting, as the Group did not obtain control due to corporate governance rules.

**** OOO Yamal razvitie is a holder of 51% of share in OOO SeverEnergiya (see Note 38).

14 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2011	2010
Long-term accounts receivable and prepayments (net of impairment provision of RR 17,893 and RR 22,139 as of 31 December 2011 and 2010, respectively)	186,414	169,124
Advances for assets under construction (net of impairment provision of RR 327 and RR 331 as of 31 December 2011 and 2010, respectively)	330,683	267,308
	517,097	**436,432**

As of 31 December 2011 and 2010, long-term accounts receivable and prepayments with carrying value RR 186,414 and RR 169,124 have an estimated fair value RR 171,188 and RR 147,374 respectively.

Long-term accounts receivable and prepayments include prepayments in amount of RR 2,168 and RR 1,962 as of 31 December 2011 and 2010 respectively.

Long-term accounts receivable of RR 55,797 and RR 58,621 as of 31 December 2011 and 2010, respectively, were impaired and provided for. The amount of the provision was RR 17,893 and RR 22,139 as of 31 December 2011 and 2010, respectively.

As of 31 December 2011 and 2010, long-term accounts receivable of RR 50 and RR 48, respectively, were past due but not impaired.

As of 31 December 2011 and 2010, long-term accounts receivable of RR 148,460 and RR 132,594, respectively, were neither past due, nor impaired. These assets can be analysed as follows:

(In millions of Russian Roubles)

14 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

	31 December 2011	31 December 2010
Long-term loans	67,771	74,328
Long-term trade receivables	6,205	4,664
Other long-term receivables	74,484	53,602
Total long-term accounts receivable neither past due, nor impaired	**148,460**	**132,594**

Management experience indicates that long-term loans granted mainly for capital construction purposes are of strong credit quality.

Movements of the Group's provision for impairment of long-term accounts receivable and prepayments are as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Impairment provision at the beginning of the year	22,139	24,915
Impairment provision accrued*	307	7,343
Disposal of subsidiaries	-	(12,203)
Release of previously created provision*	(4,553)	(1,295)
Acquisition of subsidiaries	-	3,379
Impairment provision at the end of the year	**17,893**	**22,139**

* The accrual and release of provision for impaired receivables have been included in impairment provision and other provisions in the consolidated statement of comprehensive income.

15 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

For long-term financial assets carried at fair value, the levels in the fair value hierarchy into which the fair values are categorized are as follows:

	31 December 2011				31 December 2010			
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	**Total**	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	**Total**
Equity securities*	155,291	23,455	1,044	**179,790**	166,000	22,006	865	**188,871**
Debt instruments	-	1,348	-	**1,348**	24	2,522	-	**2,546**
	155,291	**24,803**	**1,044**	**181,138**	**166,024**	**24,528**	**865**	**191,417**

* As of 31 December 2011 and 31 December 2010 equity securities include OAO NOVATEK shares in the amount of RR 122,270 and RR 110,471, respectively (see Note 37).

Debt instruments include mainly governmental and municipal bonds, corporate bonds and promissory notes on Group companies' balances which are assessed by management as of high credit quality.

Movements in long-term available-for-sale financial assets	Year ended 31 December 2011	Year ended 31 December 2010
Balance at the beginning of the year	191,417	106,658
Reclassification of investment in OAO NOVATEK (see note 37)	-	104,484
(Decrease) increase in fair value of long-term available-for-sale financial assets	(10,534)	23,798
Purchased long-term available-for-sale financial assets	1,705	4,151
Deconsolidation of ZAO Gazenergoprombank (see note 36)	-	(10,207)
Disposal of long-term available-for-sale financial assets	(2,049)	(37,679)
Impairment of long-term available-for-sale financial assets release	599	212
Balance at the end of the year	**181,138**	**191,417**

The maximum exposure to credit risk at the reporting date is the fair value of the debt securities classified as available-for-sale. The impairment of available-for-sale assets has been performed using the quoted market prices.

(In millions of Russian Roubles)

16 OTHER NON-CURRENT ASSETS

Included within other non-current assets is VAT recoverable related to assets under construction totalling RR 84,950 and RR 107,969 as of 31 December 2011 and 2010, respectively.

Other non-current assets include net pension assets in the amount of RR 248,001 and RR 254,304 as of 31 December 2011 and 2010 respectively (see Note 23).

Other non-current assets include goodwill on subsidiaries in the amount of RR 102,800 and RR 58,416 as of 31 December 2011 and 2010 respectively. Movements of the Group's goodwill on subsidiaries are as follows:

	Year ended 31 December	
Movements in goodwill on subsidiaries	**2011**	**2010**
Balance at the beginning of the year	**58,416**	**59,759**
Additions	44,742	-
Disposals	(358)	(1,343)
Balance at the end of the year	**102,800**	**58,416**

Additions to goodwill on subsidiaries for the year ended 31 December 2011 primarily comprise provisional goodwill attributable to OAO Beltransgaz (see Note 33).

	31 December	
	2011	**2010**
Gas production, transportation and distribution	69,977	28,567
Production of crude oil and gas condensate	26,224	23,250
Electric and heat energy generation and sales	6,599	6,599
Total goodwill on subsidiaries	**102,800**	**58,416**

Goodwill acquired through business combination has been allocated to related groups of cash generating units being its operating segments – Gas production, transportation and distribution, Production of crude oil and gas condensate and Electric and heat energy generation and sales. In assessing whether goodwill has been impaired, the carrying values of the cash generating units (including goodwill) were compared with their estimated value in use.

17 ACCOUNTS PAYABLE AND ACCRUED CHARGES

	31 December	
	2011	**2010**
Financial liabilities		
Trade payables	275,251	225,797
Accounts payable for acquisition of property, plant and equipment	257,850	208,771
Other payables	160,731	114,215
	693,832	548,783
Non-financial liabilities		
Advances received	109,491	152,672
Accruals and deferred income	1,321	1,185
	110,812	153,857
	804,644	**702,640**

Trade payables of RR 56,687 and RR 26,534 were denominated in foreign currency, mainly the US dollar and Euro, as of 31 December 2011 and 2010, respectively. Book values of accounts payable approximate their fair value.

(In millions of Russian Roubles)

18 OTHER TAXES PAYABLE

	31 December 2011	31 December 2010
VAT	44,734	32,365
Natural resources production tax	24,545	18,273
Property tax	11,448	10,708
Excise tax	5,698	4,297
Tax penalties and interest	19	628
Other taxes	7,263	5,650
	93,707	71,921
Less: long-term portion of restructured tax liabilities	-	(1)
	93,707	**71,920**

19 SHORT-TERM BORROWINGS, PROMISSORY NOTES AND CURRENT PORTION OF LONG-TERM BORROWINGS

	31 December 2011	31 December 2010
Short-term borrowings and promissory notes:		
RR denominated borrowings and promissory notes	28,516	16,318
Foreign currency denominated borrowings	36,410	47,163
	64,926	63,481
Current portion of long-term borrowings (see Note 20)	301,942	127,571
	366,868	**191,052**

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

	31 December 2011	31 December 2010
Fixed rate RR denominated short-term borrowings	5.63%	4.21%
Fixed rate foreign currency denominated short-term borrowings	4.44%	6.10%
Variable rate foreign currency denominated short-term borrowings	6.25%	3.11%

Fair values approximate the carrying value of these liabilities.

20 LONG-TERM BORROWINGS

	Currency	Final Maturity	31 December 2011	31 December 2010
Long-term borrowings payable to:				
Loan participation notes issued in April 2009[1]	US dollar	2019	73,707	69,771
The Royal Bank of Scotland AG	US dollar	2013	58,151	55,046
Loan participation notes issued in October 2007[1]	Euro	2018	52,919	51,220
Loan participation notes issued in June 2007[1]	US dollar	2013	51,725	48,963
Natixis SA[2]	US dollar	2015	48,300	45,721
Loan participation notes issued in November 2006[1]	US dollar	2016	43,757	41,421
Loan participation notes issued in May 2005[1]	Euro	2015	43,100	41,715
Loan participation notes issued in March 2007[1]	US dollar	2022	42,718	40,437
White Nights Finance B.V.	US dollar	2014	41,986	39,744
Loan participation notes issued in December 2005[1]	Euro	2012	41,788	40,445
Loan participation notes issued in July 2009[1]	US dollar	2014	41,608	39,386
Loan participation notes issued in August 2007[1]	US dollar	2037	41,345	39,137
Loan participation notes issued in April 2004[1]	US dollar	2034	39,218	37,124
Loan participation notes issued in July 2009[1]	Euro	2015	38,031	36,809
Loan participation notes issued in April 2008[1]	US dollar	2018	36,057	34,131

(In millions of Russian Roubles)

20 LONG-TERM BORROWINGS (continued)

	Currency	Final Maturity	31 December 2011	2010
Loan participation notes issued in October 2006[1]	Euro	2014	33,892	32,804
Loan participation notes issued in November 2011[1]	US dollar	2016	32,364	-
Loan participation notes issued in November 2010[1]	US dollar	2015	32,342	30,615
Loan participation notes issued in June 2007[1]	Euro	2014	29,435	28,490
ZAO Mizuho Corporate Bank (Moscow)	US dollar	2016	28,011	-
Bank of Tokyo-Mitsubishi UFJ Ltd.[2]	US dollar	2016	25,780	-
Loan participation notes issued in November 2006[1]	Euro	2017	21,669	20,975
Loan participation notes issued in March 2007[1]	Euro	2017	21,022	20,347
Russian bonds issued in April 2010[6]	Rouble	2013	20,670	20,000
Loan participation notes issued in November 2011[1]	US dollar	2021	19,440	-
Structured export notes issued in July 2004[3]	US dollar	2020	18,838	22,747
UniCredit Bank AG[2,9]	US dollar	2018	17,983	-
Credit Suisse International	US dollar	2017	16,886	15,989
UniCredit Bank AG[2,9]	Euro	2018	16,797	-
Loan participation notes issued in July 2008[1]	US dollar	2013	16,555	15,671
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2012	16,122	15,259
BNP Paribas SA[2]	Euro	2022	15,935	7,108
Russian bonds issued in November 2011[8]	Rouble	2014	14,878	-
J.P. Morgan Chase bank	US dollar	2012	13,576	12,847
Loan participation notes issued in April 2008[1]	US dollar	2013	13,089	12,390
OAO VTB Bank	US dollar	2012	13,012	12,317
GK Vnesheconombank	Rouble	2025	11,779	6,621
RosUkrEnergo AG	US dollar	2012	10,778	-
Russian bonds issued in April 2009[6]	Rouble	2019	10,368	11,173
Sumitomo Mitsui Finance Dublin Limited	US dollar	2016	10,337	-
Citibank International plc[2]	US dollar	2021	10,262	10,269
WestLB AG[2]	US dollar	2013	10,224	25,744
Russian bonds issued in February 2011[6]	Rouble	2021	10,127	-
Russian bonds issued in February 2011[6]	Rouble	2016	10,121	-
Russian bonds issued in February 2011[6]	Rouble	2021	10,121	-
Russian bonds issued in June 2009	Rouble	2012	10,014	10,011
OAO Gazprombank	Rouble	2018	10,000	-
Deutsche Bank AG	US dollar	2014	9,737	9,217
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2015	9,719	9,198
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2016	9,672	-
Eurofert Trading Limited llc[4]	Rouble	2015	8,600	8,600
Loan participation notes issued in November 2007[1]	JPY	2012	8,470	8,017
Russian bonds issued in July 2009[6]	Rouble	2016	8,230	8,000
Credit Agricole CIB[2]	US dollar	2013	8,064	7,633
OAO Sberbank Rossii	US dollar	2012	7,535	16,643
Deutsche Bank AG	US dollar	2014	6,923	11,410
Deutsche Bank AG	US dollar	2014	6,460	6,115
Banc of America Securities Limited	US dollar	2016	5,800	-
Russian bonds issued in February 2007	Rouble	2014	5,135	5,134
UniCredit Bank AG[2,9]	Rouble	2018	5,127	-
Russian bonds issued in December 2009[5]	Rouble	2014	5,041	5,039
Russian bonds issued in June 2009	Rouble	2014	5,008	5,006
Eurofert Trading Limited llc[4]	Rouble	2015	5,000	5,000
Russian bonds issued in March 2006[5]	Rouble	2016	4,911	4,910
The Royal Bank of Scotland AG[2]	US dollar	2013	4,546	5,521
OAO TransKreditBank	Rouble	2014	4,535	-

(In millions of Russian Roubles)

20 LONG-TERM BORROWINGS (continued)

	Currency	Final Maturity	31 December 2011	31 December 2010
The Royal Bank of Scotland AG[2]	US dollar	2012	3,795	10,774
Russian bonds issued in July 2009[7]	Rouble	2014	2,894	5,000
OAO Russian National Commercial Bank	US dollar	2011	-	19,018
Loan participation notes issued in April 2009[1]	CHF	2011	-	17,209
Russian bonds issued in November 2006	Rouble	2011	-	5,061
Russian bonds issued in September 2006[5]	Rouble	2011	-	4,801
Other long-term borrowings	Various	Various	93,197	82,213
Total long-term borrowings			**1,475,236**	**1,251,966**
Less: current portion of long-term borrowings			(301,942)	(127,571)
			1,173,294	**1,124,395**

[1] Issuer of these bonds is Gaz Capital S.A.
[2] Loans received from syndicate of banks, named lender is the bank-agent.
[3] Issuer of these notes is Gazprom International S.A.
[4] Issuer of these notes is OAO WGC-2 and OAO WGC-6. In November 2011 WGC-6 was merged with WGC-2 (see Note 34)
[5] Issuer of these bonds is OAO Mosenergo.
[6] Issuer of these bonds is OAO Gazprom neft.
[7] Issuer of these bonds is OAO TGC-1
[8] Issuer of these bonds is OOO Gazprom capital
[9] Loans were obtained for development of Yuzhno-Russkoye oil and gas field.

	31 December 2011	31 December 2010
RR denominated borrowings (including current portion of RR 58,490 and RR 28,473 as of 31 December 2011 and 2010, respectively)	203,742	129,071
Foreign currency denominated borrowings (including current portion of RR 243,452 and RR 99,098 as of 31 December 2011 and 2010, respectively)	1,271,494	1,122,895
	1,475,236	**1,251,966**

Due for repayment:	31 December 2011	31 December 2010
Between one and two years	264,547	166,853
Between two and five years	586,574	551,310
After five years	322,173	406,232
	1,173,294	**1,124,395**

Long-term borrowings include fixed rate loans with a carrying value of RR 1,191,984 and RR 1,065,435 and fair value of RR 1,228,357 and RR 1,130,206 as of 31 December 2011 and 2010 respectively. All other long-term borrowings have variable interest rates generally linked to LIBOR, and the difference between carrying value of these liabilities and their fair value is not significant.

In 2011 and 2010 the Group did not have material formal hedging arrangements to mitigate its foreign exchange risk or interest rate risk.

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

	31 December 2011	31 December 2010
Fixed rate RR denominated long-term borrowings	8.75%	10.76%
Fixed rate foreign currency denominated long-term borrowings	7.09%	7.25%
Variable rate foreign currency denominated long-term borrowings	2.91%	3.01%

As of 31 December 2011 and 2010 long-term borrowings of RR 18,838 and RR 22,747, respectively, inclusive of current portion of long-term borrowings, are secured by revenues from export supplies of gas to Western Europe.

As at 31 December 2011 according to the project facility agreement, signed within the framework of the development project of Yuzhno-Russkoe oil and gas field with the group of international financial institutions with UniCredit Bank AG acting as a facility agent, ordinary shares of OAO Severneftegazprom with the pledge value of RR 16,968 and fixed assets with the pledge value of RR 26,666 were pledged to ING Bank N.V.

(In millions of Russian Roubles)

20 LONG-TERM BORROWINGS (continued)

(London branch) up to the date of full redemption of the liabilities on this agreement. Management of the Group does not expect any substantial consequences to occur which relate to respective pledge agreement.

On the Loan participation notes issued by Gaz Capital S.A. in April 2009 due in 2019 noteholders can execute the right of early redemption in April 2012 at par value in total amount of RR 72,441 as of 31 December 2011.

On the Loan participation notes issued by Gaz Capital S.A. in April 2004 due in 2034 noteholders can execute the right of early redemption in April 2014 at par value in total amount of RR 38,635 as of 31 December 2011.

On the Russian bonds with the nominal value of RR 10,000 issued by OAO Gazprom neft in February 2011 due in 2021 bondholders can execute the right of early redemption in February 2016 at par.

On the Russian bonds with the nominal value of RR 10,000 issued by OAO Gazprom neft in February 2011 due in 2021 bondholders can execute the right of early redemption in February 2018 at par.

On the Russian bonds with the nominal value of RR 8,000 issued by OAO Gazprom neft in July 2009 due in 2016 bondholders can execute the right of early redemption in July 2012 at par.

On the Russian bonds with the nominal value of RR 2,894 issued by OAO TGC-1 in July 2009 due in 2014 bondholders can execute the right of early redemption in July 2013 at par.

On the Russian bonds with the nominal value of RR 5,000 issued by OAO Mosenergo in December 2009 due in 2014 bondholders can execute the right of early redemption in December 2012 at par.

On the Russian bonds with the nominal value of RR 4,783 issued by OAO Mosenergo in March 2006 due in 2016 bondholders can execute the right of early redemption in March 2012 at par.

On the Russian bonds with the nominal value of RR 10,000 issued by OAO Gazprom neft in April 2009 due in 2019 bondholders can execute the right of early redemption in April 2018 at par.

On the Russian bonds with the nominal value of RR 14,721 issued by OOO Gazprom Capital in November 2011 due in 2014 bondholders can execute the right of early redemption in November 2012 at par.

The Group has no subordinated debt and no debt that may be converted into an equity interest in the Group (see Note 24).

21 PROFIT TAX

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

Notes		Year ended 31 December 2011	2010
	Profit before profit tax	1,679,936	1,273,703
	Theoretical tax charge calculated at applicable tax rates	(335,987)	(254,741)
	Tax effect of items which are not deductible or assessable for taxation purposes:		
	Non-deductible expenses	(41,119)	(56,662)
37	Non-taxable income from disposal of interest in OAO NOVATEK	-	15,475
13	Non-taxable profits of associated undertakings and jointly controlled entities	19,810	15,304
	Other non-taxable income	19,802	4,914
	Profit tax expense	**(337,494)**	**(275,710)**

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 20%.

	31 December 2011	Differences recognition and reversals	31 December 2010	Differences recognition and reversals	31 December 2009
Tax effects of taxable temporary differences:					
Property, plant and equipment	(390,059)	(73,492)	(316,567)	(11,941)	(304,626)
Financial assets	(14,674)	3,548	(18,222)	(518)	(17,704)
Inventories	(4,768)	(2,197)	(2,571)	797	(3,368)
	(409,501)	**(72,141)**	**(337,360)**	**(11,662)**	**(325,698)**

(In millions of Russian Roubles)

21 PROFIT TAX (continued)

	31 December 2011	Differences recognition and reversals	31 December 2010	Differences recognition and reversals	31 December 2009
Tax effects of deductible temporary differences:					
Tax losses carry forward	896	78	818	(1,421)	2,239
Other deductible temporary differences	5,877	2,478	3,399	1,464	1,935
Total net deferred tax liabilities	**(402,728)**	**(69,585)**	**(333,143)**	**(11,619)**	**(321,524)**

Taxable temporary differences recognized in the year ended 31 December 2011 and 2010 include the effect of applying a special accelerated depreciation coefficient of 2 for property, plant and equipment operated in aggressive environment. As a result deferred tax liability related to property, plant and equipment recognized in the year ended 31 December 2011 and 2010 was RR 30,779 and RR 12,983, respectively.

In 2010 taxable temporary differences in the amount of RR 21,046 were reversed due to deconsolidation of OOO SeverEnergiya (see Note 38).

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 673,450 and RR 575,464 as of 31 December 2011 and 2010 respectively. A deferred tax liability on these temporary differences was not recognized because management controls the timing of the reversal of the temporary differences and believes that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities arise mainly from differences in the taxable and financial reporting bases of property, plant and equipment. These differences for property, plant and equipment are historically due to the fact that a significant proportion of the tax base was determined upon independent appraisals, the most recent of which was recognised for profit tax purposes as of 1 January 2001, while the financial reporting base is historical cost restated for changes in the general purchasing power of the Russian Rouble until 31 December 2002.

In accordance with the tax legislation of the Russian Federation tax losses and current tax assets of a company of the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is separately determined for main activities, income from operations with securities and service activities. Tax losses arising from one type of activity can not be offset with taxable profit of other types of activity. Also, a deferred tax asset of one company (type of activity) of the Group can not be offset against a deferred tax liability of another company (type of activity). As of 31 December 2011 and 2010 deferred tax assets on temporary differences in the amount of RR 32,588 and RR 27,154 respectively, have not been recorded because it is not probable that sufficient taxable profit will be available to allow the benefit of that deferred tax asset to be utilised.

22 DERIVATIVE FINANCIAL INSTRUMENTS

As of 31 December 2011 the Group had outstanding commodity contracts measured at fair value. The fair value of derivatives is based on market quotes on measurement date or calculation using an agreed price formula.

In order to manage currency risk the Group uses among others foreign currency derivatives where possible.

The following table provides an analysis of the Group’s position and fair value of derivatives outstanding as of the end of the reporting period. Fair values of derivatives are reflected at their gross value in the consolidated balance sheet.

Fair value	**31 December**	
	2011	**2010**
Assets		
Commodity contracts	61,532	32,175
Foreign currency derivatives	2,979	6,481
Other derivatives	26	3,625
	64,537	**42,281**
Liabilities		
Commodity contracts	58,200	34,820
Foreign currency derivatives	9,134	487
Other derivatives	48	1,525
	67,382	**36,832**

(In millions of Russian Roubles)

22 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following fair value hierarchies emerged for the derivative financial instruments:

	31 December 2011				31 December 2010			
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	**Total**	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	**Total**
Derivative financial instruments, assets	3,249	60,505	783	**64,537**	1,928	37,873	2,480	**42,281**
Derivative financial instruments, liabilities	2,335	64,315	732	**67,382**	2,897	33,367	568	**36,832**

The maturities of all derivative financial instruments varies from up to three months to five years and more and predominantly include derivatives up to three months.

23 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December	
	2011	**2010**
Provision for decommissioning and site restoration costs	102,017	101,407
Provision for pension obligations	95,678	84,064
Other	9,039	14,569
	206,734	**200,040**

The Group operates a defined benefit plan, concerning the majority of its employees. These benefits include pension benefits provided by the non-governmental pension fund, NPF Gazfund and certain post-retirement benefits, from the Group at their retirement date.

Principal actuarial assumptions used:

	31 December	
	2011	**2010**
Discount rate (nominal)	8.0%	7.8%
Future salary and pension increases (nominal)	6.0%	6.5%
Turnover ratio p.a.	4.0%	4.8%
Employees average remaining working life (years)	15	15

The assumptions relating to life expectancy at normal pension age were 17 years for a 60 year old man and 28 years for a 55 year old woman in 2011 and 2010.

The Group expected a 10.3% return on the plan assets as of 31 December 2011 and 10.1% return as of 31 December 2010.

The amounts associated with pension obligations recognized in the consolidated balance sheet are as follows:

	31 December 2011		31 December 2010	
	Funded benefits - provided through NPF Gazfund	**Unfunded liabilities - other benefits**	**Funded benefits - provided through NPF Gazfund**	**Unfunded liabilities - other benefits**
Present value of benefit obligations	(228,121)	(148,805)	(213,128)	(136,821)
Fair value of plan assets	447,183	-	438,115	-
	219,062	**(148,805)**	**224,987**	**(136,821)**
Unrecognised net actuarial losses (gains)	136,585	6,003	143,212	1,630
Unrecognised past service costs	-	47,124	-	51,127
Unrecognised plan assets above the limit	(107,646)	-	(113,895)	-
Net balance asset (liability)	**248,001**	**(95,678)**	**254,304**	**(84,064)**

The net pension assets of RR 248,001 related to benefits provided by the pension plan NPF Gazfund as of 31 December 2011 are included within other non-current assets.

(In millions of Russian Roubles)

23 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The amounts recognized in the consolidated statement of comprehensive income are as follows:

	Year ended 31 December	
	2011	2010
Current service cost	14,761	13,397
Interest on obligation	27,549	26,374
Expected return on plan assets	(43,812)	(52,918)
Net actuarial losses (gains) recognized for the year	39,425	165,571
Past service cost	3,797	3,882
Effect of asset restriction	(6,249)	(91,316)
Total operating expenses included in staff costs	**35,471**	**64,990**

The total amount of benefits paid for 2011 and 2010 were equal to RR 16,726 and RR 14,003 respectively.

Changes in the present value of the defined benefit obligations are the follows:

	31 December 2011		31 December 2010	
	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits
Defined benefit obligation at the beginning of the reporting year	**213,128**	**136,821**	**214,342**	**88,808**
Service cost	7,982	6,779	7,593	5,804
Interest cost	16,624	10,925	18,648	7,726
Actuarial (gains) losses	(2,890)	4,490	(11,300)	46,970
Past service cost	-	(207)	-	-
Benefits paid	(6,723)	(10,003)	(5,878)	(8,125)
Other movements	-	-	(10,277)	(4,362)
Defined benefit obligation at the end of the reporting year	**228,121**	**148,805**	**213,128**	**136,821**

Changes in the plan assets are as follows:

	31 December 2011		31 December 2010	
	Funded benefits - provided through NPF Gazfund	Other benefits	Funded benefits - provided through NPF Gazfund	Other benefits
Fair value of plan assets at the beginning of the reporting year	**438,115**	**-**	**513,763**	**-**
Expected return	43,812	-	52,918	-
Actuarial (losses) gains	(35,572)	-	(127,823)	-
Contributions by employer	7,551	10,003	5,135	8,125
Benefits paid	(6,723)	(10,003)	(5,878)	(8,125)
Fair value of plan assets at the end of the reporting year	**447,183**	**-**	**438,115**	**-**

The major categories of plan assets as a percentage of total plan assets are as follows:

	31 December 2011	31 December 2010
Equities	81%	80%
Other assets	19%	20%
	100%	**100%**

The amount of ordinary shares of OAO Gazprom included in the fair value of plan assets comprise RR 60,721 and RR 64,692 as of 31 December 2011 and 2010, respectively.

(In millions of Russian Roubles)

23 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

For the year ended 31 December 2011 actual return on plan assets was profit of RR 8,240 primarily caused by the change of the fair value of plan assets.

Funded status of the plan:

	31 December				
	2011	**2010**	**2009**	**2008**	**2007**
Defined benefit obligation	(228,121)	(213,128)	(214,342)	(182,590)	(207,880)
Plan assets	447,183	438,115	513,763	257,046	583,221
Surplus	**219,062**	**224,987**	**299,421**	**74,456**	**375,341**
Experience adjustments on plan liabilities	(23,799)	51,447	(36,185)	(124,592)	(43,259)
Experience adjustments on plan assets	(35,572)	(127,823)	230,184	(358,806)	(33,514)

24 EQUITY

Share capital

Share capital authorised, issued and paid in totals RR 325,194 as of 31 December 2011 and 2010 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Roubles.

Dividends

In 2011, OAO Gazprom accrued and paid dividends in the nominal amount of 3.85 Roubles per share for the year ended 31 December 2010. In 2010, OAO Gazprom accrued and paid dividends in the nominal amount of 2.39 Roubles per share for the year ended 31 December 2009.

Treasury shares

As of 31 December 2011 and 2010, subsidiaries of OAO Gazprom held 726 million and 723 million of the ordinary shares of OAO Gazprom, respectively. Shares of the Group held by the subsidiaries represent 3.1% of OAO Gazprom shares as of 31 December 2011 and 2010. The Group management controls the voting rights of these shares.

Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of the Rouble as of 31 December 2002, when Russian economy ceased to be hyperinflationary under IAS 29 “Financial Reporting in Hyperinflation Economies”. Also, retained earnings and other reserves include translation gains arising on the translation of the net assets of foreign subsidiaries, associated undertakings and jointly controlled entities in the amount of RR 58,608 and RR 40,764 as of 31 December 2011 and 2010, respectively.

Retained earnings and other reserves include a statutory fund for social assets, created in accordance with Russian legislation at the time of privatisation. From time to time, the Group negotiates to return certain of these assets to governmental authorities and this process may continue. Social assets with a net book value of RR 351 and RR 756 have been transferred to governmental authorities during the years ended 31 December 2011 and 2010 respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

The basis of distribution is defined by legislation as the current year net profit of the Group parent company, as calculated in accordance with RAR. For 2011 year, the statutory profit of the parent company was RR 879,602. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in these consolidated financial statements.

(In millions of Russian Roubles)

25 SALES

	Year ended 31 December	
	2011	**2010**
Gas sales gross of custom duties to customers in:		
Russian Federation	738,601	636,843
Former Soviet Union (excluding Russian Federation)	694,937	493,806
Europe and other countries	1,763,716	1,357,852
	3,197,254	2,488,501
Customs duties	(382,406)	(302,296)
Sales of gas	2,814,848	2,186,205
Sales of refined products to customers in:		
Russian Federation	588,250	412,208
Former Soviet Union (excluding Russian Federation)	48,630	36,042
Europe and other countries	336,146	260,812
Total sales of refined products	973,026	709,062
Sales of crude oil and gas condensate to customers in:		
Russian Federation	41,442	23,148
Former Soviet Union (excluding Russian Federation)	36,345	25,967
Europe and other countries	157,645	146,959
Sales of crude oil and gas condensate	235,432	196,074
Electric and heat energy sales:		
Russian Federation	333,204	281,853
Former Soviet Union (excluding Russian Federation)	3,469	3,476
Europe and other countries	7,878	3,326
Total electric and heat energy sales	344,551	288,655
Gas transportation sales:		
Russian Federation	111,082	91,353
Former Soviet Union (excluding Russian Federation)	1,913	1,278
Total gas transportation sales	112,995	92,631
Other revenues:		
Russian Federation	137,711	108,933
Former Soviet Union (excluding Russian Federation)	7,490	7,683
Europe and other countries	11,037	7,811
Total other revenues	156,238	124,427
Total sales	**4,637,090**	**3,597,054**

(In millions of Russian Roubles)

26 OPERATING EXPENSES

	Year ended 31 December	
	2011	2010
Purchased gas and oil	828,551	605,836
Taxes other than on income	418,134	291,712
Staff costs	374,731	354,501
Transit of gas, oil and refined products	280,770	273,469
Depreciation	275,184	249,693
Repairs and maintenance	189,865	178,296
Cost of goods for resale, including refined products	125,520	54,145
Materials	104,349	96,287
Electricity and heating expenses	70,356	60,961
Transportation services	33,753	27,603
Research and development expenses	29,489	24,300
Rental expenses	26,787	20,827
Heat transmission	26,465	24,469
Insurance expenses	20,384	16,088
Social expenses	18,811	25,635
Processing services	10,935	8,450
Exchange rate differences on operating items	(6,386)	12,876
Other	178,896	166,765
	3,006,594	**2,491,913**
Changes in inventories of finished goods, work in progress and other effects	(64,413)	(51,136)
Total operating expenses	**2,942,181**	**2,440,777**

Starting from 1 January 2011 the Group changed presentation of operating expenses disclosing by nature the expenses incurred during the period and adjusting them for the total change in inventories of finished goods, work in progress and other effects. The comparative information was adjusted accordingly. Management believes that the current presentation of operating expenses is more reflective to the Group's operations.

Staff costs include RR 35,471 and RR 64,990 of expenses associated with pension obligations for the years ended 31 December 2011 and 2010, respectively (see Note 23).

Gas purchase expenses included within purchased oil and gas amounted to RR 578,006 and RR 401,725 for the years ended 31 December 2011 and 2010, respectively.

Taxes other than on income consist of:

	Year ended 31 December	
	2011	2010
Natural resources production tax	265,742	175,789
Excise tax	95,752	62,350
Property tax	46,699	42,034
Other taxes	9,941	11,539
	418,134	**291,712**

27 FINANCE INCOME AND EXPENSES

	Year ended 31 December	
	2011	2010
Exchange gains	171,570	150,384
Interest income	18,685	20,692
Gains on and extinguishment of restructured liabilities	233	765
Total finance income	**190,488**	**171,841**
Exchange losses	235,825	130,433
Interest expense	31,998	38,714
Total finance expenses	**267,823**	**169,147**

(In millions of Russian Roubles)

28 RECONCILIATION OF PROFIT, DISCLOSED IN CONSOLIDATED STATEMENT OF INCOME, PREPARED IN ACCORDANCE WITH RUSSIAN ACCOUNTING RULES (RAR) TO PROFIT DISCLOSED IN IFRS STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2011	**2010**
	RAR net profit for the year per consolidated statutory accounts	**1,033,105**	**801,532**
	Effects of IFRS adjustments:		
	Reclassification of revaluation of available for sale financial assets	10,581	(12,832)
	Write-off of deferred tax liability related to revaluation of OAO Gazprom shares, accounted on balance of ZAO Gerosgaz	-	(22,942)
	Elimination of gains arising from change in fair value of investment in OAO NOVATEK recognized for RAR purposes	-	(49,915)
37	Gain on disposal of interest in OAO NOVATEK	-	77,375
	Difference in share of net income of associated undertakings and jointly controlled entities	(9,630)	(10,328)
	Differences in depreciation	200,405	182,049
	Write-off of long term financial assets	(601)	(5,051)
	Reversal of goodwill depreciation	45,429	46,847
	Loan interest capitalized	51,782	55,023
23	Impairment and other provisions, including provision for pension obligations and unused vacations	5,028	(61,613)
	Accounting of finance lease	12,314	8,883
	Accounting for Gazprombank group	7,709	16,895
	Write-off of research and development expenses capitalized for RAR purposes	(5,340)	(10,462)
	Fair value adjustment on commodity contracts	4,613	(9,710)
	Differences in losses on fixed assets disposal	3,155	562
	Other effects	(16,108)	(8,320)
	IFRS profit for the year	**1,342,442**	**997,993**

29 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF OAO GAZPROM

Earnings per share have been calculated by dividing the profit, attributable to owners of OAO Gazprom by the weighted average number of shares outstanding during the period, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares (see Note 24).

There were 22.9 and 22.9 billion weighted average shares outstanding for the years ended 31 December 2011 and 2010 respectively.

There are no dilutive financial instruments outstanding.

(In millions of Russian Roubles)

30 NET CASH PROVIDED BY OPERATING ACTIVITIES

	Year ended 31 December	
	2011	2010
Profit before profit tax	**1,679,936**	**1,273,703**
Adjustments to profit before profit tax		
Depreciation	275,184	249,693
Gain from disposal of interest in OAO NOVATEK	-	(77,375)
Increase in provisions	76,328	113,701
Net unrealised foreign exchange loss (gain)	64,255	(19,951)
Interest expense	31,998	38,714
Gains on and extinguishment of restructured liabilities	(233)	(765)
Losses on disposal of property, plant and equipment	7,712	18,726
Interest income	(18,685)	(20,692)
Gains on disposal of available-for-sale financial assets	(1,379)	(3,292)
Derivatives (gain) loss	(4,613)	9,710
Share of net income of associated undertakings and jointly controlled entities	(99,049)	(76,520)
Other non-cash adjustments	(9,908)	(6,219)
Total effect of adjustments	321,610	225,730
Increase in long-term assets	(5,344)	(36,381)
(Decrease) increase in long-term liabilities	(123)	3,541
	1,996,079	1,466,593
Changes in working capital		
(Increase) decrease in accounts receivable and prepayments	(66,689)	84
Increase in inventories	(82,910)	(42,132)
Increase in other current assets	(5,894)	(19,759)
(Decrease) increase in accounts payable and accrued charges, excluding interest, dividends and capital construction	(13,762)	183,761
Settlements on taxes payable (other than profit tax)	150,975	115,455
(Increase) decrease in available-for-sale financial assets and financial assets held for trading	(14,017)	16,277
Total effect of working capital changes	(32,297)	253,686
Profit tax paid	(326,332)	(260,163)
Net cash provided by operating activities	**1,637,450**	**1,460,116**

Total taxes and other similar payments paid in cash for the years 2011 and 2010:

	Year ended 31 December	
	2011	2010
Customs duties	675,806	474,682
Profit tax	326,332	260,163
Natural resources production tax	257,909	172,507
VAT	175,194	132,015
Excise	84,497	59,611
Insurance contributions to non-budget funds	53,688	42,514
Property tax	45,801	38,127
Personal income tax	37,605	34,552
Other	26,277	20,093
Total taxes paid	**1,683,109**	**1,234,264**

(In millions of Russian Roubles)

31 SUBSIDIARY UNDERTAKINGS

Principal subsidiaries

Subsidiary undertaking	Location	% of share capital as of 31 December* 2011	2010
OOO Aviapredpriyatie Gazprom avia	Russia	100	100
ZAO ArmRosgazprom	Armenia	80	80
OAO Beltransgaz**	Belorussia	100	50
Vemex s.r.o	Czech Republic	50	50
OAO Vostokgazprom	Russia	100	100
OOO Gazovie Magistraly Tumeny	Russia	100	100
Gazprom (Schweiz) AG (ZMB (Schweiz) AG)	Switzerland	100	100
OOO Gazprom burenie	Russia	-	100
OOO Gazprom VNIIGAZ	Russia	100	100
OAO Gazprom gazoraspredelenie (OAO Gazpromregiongaz)	Russia	100	100
OOO Gazprom geologorazvedka (OOO Gazprom dobycha Krasnoyarsk)	Russia	100	100
GAZPROM Germania GmbH	Germany	100	100
Gazprom Gerosgaz Holding B.V.	Netherlands	100	100
Gazprom Global LNG Ltd.	United Kingdom	100	100
OOO Gazprom dobycha Astrakhan	Russia	100	100
OOO Gazprom dobycha Krasnodar	Russia	100	100
OOO Gazprom dobycha Nadym	Russia	100	100
OOO Gazprom dobycha Noyabrsk	Russia	100	100
OOO Gazprom dobycha Orenburg	Russia	100	100
OOO Gazprom dobycha Urengoy	Russia	100	100
OOO Gazprom dobycha shelf	Russia	100	100
OOO Gazprom dobycha Yamburg	Russia	100	100
OOO Gazprom invest Vostok	Russia	100	100
OOO Gazprom invest Zapad	Russia	100	100
ZAO Gazprom invest Yug	Russia	100	100
OOO Gazprom investholding	Russia	100	100
OOO Gazprom inform	Russia	100	100
OOO Gazprom komplektaciya	Russia	100	100
Gazprom Libyen Verwaltungs GmbH	Germany	100	100
Gazprom Marketing and Trading Ltd.	United Kingdom	100	100
OOO Gazprom mezhregiongaz	Russia	100	100
ZAO Gazprom neft Orenburg ***	Russia	100	100
Gazprom neft Trading GmbH ***	Austria	100	100
OOO Gazprom neft shelf	Russia	100	100
OAO Gazprom neft	Russia	96	96
OOO Gazprom pererabotka	Russia	100	100
OOO Gazprom podzemremont Orenburg	Russia	100	100
OOO Gazprom podzemremont Urengoy	Russia	100	100
OOO Gazprom PKhG	Russia	100	100
Gazprom Sakhalin Holding B.V.	Netherlands	100	100
OOO Gazprom torgservis	Russia	100	100
OOO Gazprom transgas Volgograd	Russia	100	100
OOO Gazprom transgas Ekaterinburg	Russia	100	100
OOO Gazprom transgas Kazan	Russia	100	100
OOO Gazprom transgas Krasnodar (OOO Gazprom transgas-Kuban)	Russia	100	100
OOO Gazprom transgas Makhachkala	Russia	100	100
OOO Gazprom transgas Moskva	Russia	100	100
OOO Gazprom transgas Nizhny Novgorod	Russia	100	100
OOO Gazprom transgas Samara	Russia	100	100
OOO Gazrpom transgas St. Petersburg	Russia	100	100
OOO Gazprom transgas Saratov	Russia	100	100
OOO Gazprom transgas Stavropol	Russia	100	100
OOO Gazprom transgas Surgut	Russia	100	100

(In millions of Russian Roubles)

31 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Location	% of share capital as of 31 December* 2011	2010
OOO Gazprom transgas Tomsk	Russia	100	100
OOO Gazprom transgas Ufa	Russia	100	100
OOO Gazprom transgas Ukhta	Russia	100	100
OOO Gazprom transgas Tchaikovsky	Russia	100	100
OOO Gazprom transgas Yugorsk	Russia	100	100
Gazprom Finance B.V.	Netherlands	100	100
OOO Gazprom tsentrremont	Russia	100	100
OOO Gazprom export	Russia	100	100
OOO Gazprom energo	Russia	100	100
OOO Gazprom energoholding	Russia	100	100
Gazprom EP International B.V.	Netherlands	100	100
OOO Gazpromneft-Vostok ***	Russia	100	100
ZAO Gazpromneft-Kuzbass ***	Russia	100	100
OAO Gazpromneft-MNPZ (OAO Moscovsky NPZ) ***	Russia	78	77
OAO Gazpromneft-Noyabrskneftegaz ***	Russia	100	100
OAO Gazpromneft-Omsk ***	Russia	100	100
OAO Gazpromneft-Omskiy NPZ ***	Russia	100	100
ZAO Gazpromneft-Severo-Zapad ***	Russia	100	100
OOO Gazpromneft-Khantos***	Russia	100	100
OOO Gazpromneft-Centr ***	Russia	100	100
OOO Gazpromneftfinans ***	Russia	100	100
OOO GazpromPurInvest	Russia	100	100
OOO Gazpromtrans	Russia	100	100
OAO Gazpromtrubinvest	Russia	100	100
OOO Gazflot	Russia	100	100
OOO Georesurs	Russia	100	100
OAO Daltransgaz	Russia	100	100
OOO Zapolyarneft***	Russia	100	100
OAO Zapsibgazprom	Russia	77	77
ZAO Kaunasskaya power station	Lithuania	99	99
OAO Krasnoyarskgazprom	Russia	75	75
OAO Mosenergo	Russia	53	53
Naftna Industrija Srbije ***	Serbia	56	51
OOO NK Sibneft-Yugra ***	Russia	100	100
OOO Novourengoysky GCC	Russia	100	100
OAO WGC-2*****	Russia	58	58
OAO WGC-6*****	Russia	-	61
ZAO Purgaz	Russia	51	51
OAO Regiongazholding	Russia	56	56
ZAO Rosshelf	Russia	57	57
ZAO RSh-Centr	Russia	100	100
OAO Severneftegazprom ****	Russia	50	50
Sibir Energy Ltd. ***	United Kingdom	100	78
OOO Sibmetahim	Russia	100	100
OAO Spetsgazavtotrans	Russia	51	51
OAO TGC-1	Russia	52	52
OAO Teploset Sankt-Peterburga	Russia	75	100
OAO Tomskgazprom	Russia	100	100
OOO Faktoring-Finance	Russia	90	90
OAO Tsentrgaz	Russia	100	100
OAO Tsentrenergogaz	Russia	66	66
OAO Yuzhuralneftegaz***	Russia	88	-
ZAO Yamalgazinvest	Russia	100	100

* Cumulative share of Group companies in charter capital of investments.
** In December 2011 the Group acquired 50% interest in OAO Beltransgaz. As a result the Group obtained control over OAO Beltransgaz (see Note 33).
*** Subsidiaries of OAO Gazprom neft.
**** Group's voting shares.
***** In November 2011 WGC-6 was merged with WGC-2 (see Note 34).

(In millions of Russian Roubles)

32 NON-CONTROLLING INTEREST

Notes		Year ended 31 December 2011	2010
	Non-controlling interest at the beginning of the year	**286,610**	**322,806**
	Non-controlling interest share of net profit of subsidiary undertakings	35,424	29,436
35	Acquisition of the additional interest in Sibir Energy Ltd.	(23,022)	(17,026)
	Disposal of the interest in OAO Teploset Sankt-Peterburga	6,468	-
38	Disposal of the controlling interest in OOO SeverEnergiya	-	(41,677)
	Purchase of the non-controlling interest in OAO Daltransgaz	-	(3,619)
	Changes in the non-controlling interest as a result of other disposals and acquisitions	(105)	(3,074)
	Dividends	(9,453)	(1,110)
	Translation differences	1,498	874
	Non-controlling interest at the end of the year	**297,420**	**286,610**

33 ACQUISITION OF THE CONTROLLING INTEREST IN OAO BELTRANSGAZ

During the period from June 2007 to February 2010 as a result of series of transactions, the Group acquired a 50% interest in OAO Beltransgaz. Four equal installments in the amount of USD 625 million were paid by the Group for each 12.5% share acquired. Since February 2008, when the Group's interest in OAO Beltransgaz increased to 25%, the Group started to exercise significant influence and applied the equity method of accounting for its investment in OAO Beltransgaz.

In November 2011 the Group entered into a share purchase agreement with the State Property Committee of the Republic of Belarus to acquire the remaining 50% interest in OAO Beltransgaz for cash consideration of USD 2,500 million. In December 2011 the transaction was finalised. As a result the Group increased its ownership interest up to 100% and obtained control over OAO Beltransgaz.

In accordance with IFRS 3 "Business Combinations", the Group recognized the acquired assets and liabilities based upon their fair values. In these consolidated financial statements, management made a preliminary assessment on a provisional basis. Management is required to finalise the accounting within 12 months from the date of acquisition. Any revisions to the provisional values will be reflected as of the acquisition date.

Purchase consideration includes 50% share in OAO Beltransgaz acquired in December 2011 in amount of RR 78.3 billion (USD 2,500 million) and fair value of previously acquired 50% share in OAO Beltransgaz accounted for using the equity method in amount of RR 34.3 billion.

As a result of the Group obtaining control over OAO Beltransgaz, the Group's previously held 50% interest was remeasured to fair value, resulting in a loss of RR 9.63 billion. This has been recognised in the line item 'Share of net income of associated undertakings and jointly controlled entities' in the consolidated statement of comprehensive income.

Details of the assets acquired and liabilities assumed are as follows:

	Book value	Provisional fair value
Cash and cash equivalents	8,187	8,187
Accounts receivable and prepayments	34,046	34,046
VAT recoverable	1,907	1,907
Inventories	4,490	4,490
Other current assets	365	365
Current assets	**48,995**	**48,995**
Property, plant and equipment	30,905	79,091
Construction in progress	763	763
Other non-current assets	251	251
Non-current assets	**31,919**	**80,105**
Total assets	**80,914**	**129,100**
Accounts payable and accrued charges	41,891	41,891
Short-term borrowings, promissory notes and current portion of long-term borrowings	9,627	9,627
Current liabilities	**51,518**	**51,518**
Long-term borrowings	301	301

(In millions of Russian Roubles)

33 ACQUISITION OF THE CONTROLLING INTEREST IN OAO BELTRANSGAZ (continued)

	Book value	Provisional fair value
Deferred tax liabilities	-	8,674
Other non-current liabilities	5	5
Non-current liabilities	**306**	**8,980**
Total liabilities	**51,824**	**60,498**
Net assets at acquisition date	**29,090**	**68,602**
Provisional fair value of Net assets at acquisition date		68,602
Purchase consideration		112,605
Provisional goodwill		**44,003**

If the acquisition had occurred on 1 January 2011, the Group' sales for year ended 31 December 2011 would have been RR 4,695,157. The Group's profit for the year ended 31 December 2011 would have been RR 1,336,248 respectively.

Goodwill is attributable to enabling effective integration of the Russian and Belarusian gas transmission systems, reducing transit risks, providing additional security of gas sales in the respective markets over the long term. The acquisition of OAO Beltransgaz also allowed the Group to play an active role in the gas infrastructure development in the Republic of Belarus – which is very important for its synchronization with the Company's facilities development in Russia.

34 MERGER OF OAO WGC-2 AND OAO WGC-6

In June 2011 the Annual general shareholders meeting of OAO WGC-2 took a decision to reorganize OAO WGC-2 in the form of a merger with OAO WGC-6. As a result of this reorganization, completed in November 2011, all assets and liabilities of OAO WGC-6 were transferred to OAO WGC-2. The share capital of OAO WGC-2 was increased in form of an additional ordinary shares issue. Placement of shares was performed by conversion of all shares of OAO WGC-6 into ordinary shares of OAO WGC-2. As the result of this reorganization, the share of Gazprom Group in OAO WGC-2 amounts to 58%.

35 PURCHASE OF NON-CONTROLLING INTEREST IN SIBIR ENERGY LTD.

On 14 February 2011 the Board of Directors of Sibir Energy Ltd. adopted a resolution to reduce the share capital by 86.25 million shares (22.39%). OAO Central Fuel Company, an affiliate to the Moscow Government, made a decision to withdraw membership in Sibir Energy Ltd. for a compensation of USD 740 million. As a result of the transaction starting from 15 February 2011 the Group has 100% interest in Sibir Energy Ltd.

Following the reduction in share capital of Sibir Energy Ltd. the Group has increased its effective interest in OAO Gazpromneft-MNPZ from 66.04% to 74.36%.

As a result of this transaction the difference between the non-controlling interest acquired and consideration paid has been recognized in equity in amount of RR 5,405 and is included within retained earnings and other reserves.

36 DECONSOLIDATION OF ZAO GAZENERGOPROMBANK

On 29 March 2010 the respective Boards of directors of ZAO Gazenergoprombank, banking subsidiary of the Group, and OAO AB Rossiya, a bank not related to the Group, approved a reorganization in the form of the merger of ZAO Gazenergoprombank to OAO AB Rossiya. On 30 April 2010 shareholders of both banks also approved that reorganization. According to the merger agreement, all assets and liabilities of ZAO Gazenergoprombank were transferred to OAO AB Rossiya; in exchange for its existing controlling interest in ZAO Gazenergoprombank, the Group received a non-controlling interest in OAO AB Rossiya. According to the terms of the merger agreement the Group lost the ability to control the financial and operating policies of ZAO Gazenergoprombank on 30 April 2010. As a result, the Group ceased to include assets, liabilities, operating results and cash flows of ZAO Gazenergoprombank within the consolidated financial statements from 30 April 2010. In August 2010 the reorganization in the form of the merger of ZAO Gazenergoprombank to OAO AB Rossiya was finalized.

37 DISPOSAL OF INTEREST IN OAO NOVATEK

In December 2010 the Group sold a portion of their associated undertaking (total carrying value of RR 84,978 as of the date sold) representing a 9.4% interest in OAO NOVATEK to a party unrelated to the Group for RR 57,462 (see note 13) paid in cash. As a result of this transaction the Group has ceased to exercise significant influence over the business activities of OAO NOVATEK. Therefore the remaining 9.99% interest was classified as long-term available-for-sale financial asset and was recognized at fair value in the amount of RR 104,484 at the date of disposal (see note 15).

(In millions of Russian Roubles)

37 DISPOSAL OF INTEREST IN OAO NOVATEK (continued)

In the consolidated statement of comprehensive income for the year ended 31 December 2010 the Group recognized a gain of RR 77,375 representing the difference between the sum of fair value of the remaining 9.99% interest at the date of transaction, cash proceeds from disposal of 9.4% interest and accumulated net gain previously recognized in other comprehensive income in relation to this associated undertaking, and the carrying amount of total 19.39% interest as at transaction date.

38 DECONSOLIDATION OF THE CONTROLLING INTEREST IN OOO SEVERENERGIYA

In November 2010 OAO Gazprom sold its entire 51% controlling interest in OOO SeverEnergiya to OOO Yamal razvitie –a fifty-fifty jointly controlled entity owned by the Group (OAO Gazprom neft) and OAO NOVATEK for RR 56.2 billion paid in cash. As a result of the transaction the Group retained an effective 25.5% non-controlling interest in OOO SeverEnergiya. Gain from deconsolidation of OOO SeverEnergiya recognized in consolidated statement of comprehensive income amounted to RR 5,868.

39 RELATED PARTIES

For the purpose of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 “Related Party Disclosures”. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Government

The Government of the Russian Federation is the ultimate controlling party of OAO Gazprom and has a controlling interest (including both direct and indirect ownership) of over 50% in OAO Gazprom.

As of 31 December 2011 38.373% of OAO Gazprom issued shares were directly owned by the Government. Another 11.629% were owned by Government controlled entities. The Government does not prepare consolidated financial statements for public use. On 30 June 2011 the extraordinary General Shareholders Meeting was held to fulfil the assignments of the President of the Russian Federation to replace government officials on boards of directors in open joint stock companies with independent or representative directors. As a result of the extraordinary General Shareholders Meeting authority of two State representatives on the Board of Directors was terminated ahead of schedule and the new Board of Directors was elected. Governmental economic and social policies affect the Group’s financial position, results of operations and cash flows.

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

Parties under control of the Government

In the normal course of business the Group enters into transactions with other entities under Government control. Prices of natural gas sales and electricity tariffs in Russia are regulated by the Federal Tariffs Service (“FTS”). Bank loans with related parties are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

As of and for the years ended 31 December 2011 and 2010 respectively, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

	As of 31 December 2011		Year ended 31 December 2011	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with the Government				
Current profit tax	58,769	44,036	-	279,216
Insurance contributions to non-budget funds	682	2,358	-	57,592
VAT recoverable/payable	456,498	44,734	-	-
Customs duties	69,375	-	-	-
Other taxes	2,194	46,615	-	418,134
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	28,362	-
Electricity and heating sales	-	-	194,506	-
Other services sales	-	-	1,733	-
Accounts receivable	32,118	-	-	-
Oil transportation expenses	-	-	-	82,229
Accounts payable	-	11,658	-	-

(In millions of Russian Roubles)

39 RELATED PARTIES (continued)

	As of 31 December 2011		Year ended 31 December 2011	
	Assets	**Liabilities**	**Revenues**	**Expenses**
Loans	-	54,735	-	-
Interest expense		-	-	3,163
Short-term financial assets	3,136	-	-	-
Available-for-sale long-term financial assets	32,128	-	-	-

	As of 31 December 2010		Year ended 31 December 2010	
	Assets	**Liabilities**	**Revenues**	**Expenses**
Transactions and balances with the Government				
Current profit tax	14,265	45,649	-	249,387
Unified social tax	753	1,438	-	35,950
VAT recoverable/payable	299,121	32,365	-	-
Customs duties	44,197	-	-	-
Other taxes	1,689	38,117	-	291,712
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	3,100	-
Electricity and heating sales	-	-	189,706	-
Other services sales	-	-	2,086	-
Accounts receivable	26,977	-	-	-
Oil transportation expenses	-	-	-	76,664
Accounts payable	-	9,289	-	-
Loans	-	48,710	-	-
Interest expense	-	-	-	7,821
Short-term financial assets	517	-	-	-
Available-for-sale long-term financial assets	54,718	-	-	-

Gas sales and respective accounts receivable, oil transportation expenses and respective accounts payable included in the table above are related to major State controlled utility companies.

In the normal course of business the Group incurs electricity and heating expenses (see Note 26). A part of these expenses relates to purchases from the entities under Government control. Due to specifics of electricity market in Russian Federation, these purchases can not be accurately separated from the purchases from private companies.

See consolidated statement of changes in equity for returns of social assets to governmental authorities during years ended 31 December 2011 and 2010. See Note 12 for net book values as of December 2011 and 2010 of social assets vested to the Group at privatisation.

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of OAO Gazprom) short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of Group companies, amounted to approximately RR 1,795 and RR 1,561 for the years ended 31 December 2011 and 2010 respectively. Such amounts include personal income tax and Insurance contributions to non-budget funds. Government officials, who are directors, do not receive remuneration from the Group. The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement benefit programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Gazfund, and a one-time payment from the Group at their retirement date. The employees of the majority of Group companies are eligible for such benefits after retirement.

The Group provided medical insurance and liability insurance for key management personnel.

Associated undertakings and jointly controlled entities

For the years ended 31 December 2011 and 2010 and as of 31 December 2011 and 2010 the Group had the following significant transactions with associated undertakings and jointly controlled entities:

(In millions of Russian Roubles)

39 RELATED PARTIES (continued)

	Year ended 31 December	
	2011	**2010**
Gas sales	**Revenues**	
OAO Beltransgaz*	138,015	122,983
Wintershall Erdgas Handelshaus GmbH & Co. KG (WIEH)	94,921	77,487
WINGAS GmbH & Co. KG	71,870	41,716
ZAO Panrusgaz	55,683	69,708
AO Gazum	30,535	27,654
Wintershall Erdgas Handelshaus Zug AG (WIEE)**	27,283	21,050
AO Overgaz Inc.	24,805	19,134
AO Moldovagaz	21,875	17,125
Promgaz S.p.A.***	13,333	13,600
AO Lietuvos dujos	12,356	10,942
PremiumGas S.p.A.	9,115	9,808
ZAO Gazprom YRGM Trading	9,113	12,916
AO Latvijas Gaze	7,805	5,121
ZAO Gazprom YRGM Development	6,510	9,225
GWH Gazhandel GmbH ****	4,900	9,663
Bosphorus Gaz Corporation A.S.	4,035	3,695
Gas transportation sales		
ZAO Gazprom YRGM Trading	19,691	17,837
ZAO Gazprom YRGM Development	14,065	12,741
OAO NOVATEK*****	-	25,975
Gas condensate, crude oil and refined products sales		
OAO NGK Slavneft and its subsidiaries	41,946	35,228
OAO Gazprom neftekhim Salavat	19,698	12,419
Gas refining services sales		
TOO KazRosGaz	5,064	4,518
Purchased gas	**Expenses**	
RosUkrEnergo AG	122,541	8,447
ZAO Gazprom YRGM Trading	52,059	42,152
ZAO Gazprom YRGM Development	37,220	30,139
WINGAS GmbH & Co. KG	37,006	25,869
TOO KazRosGaz	25,073	28,158
Sakhalin Energy Investment Company Ltd.	4,750	7,533
OAO NOVATEK*****	-	12,935
Purchased transit of gas		
OAO Beltransgaz*	13,526	14,206
SGT EuRoPol GAZ S.A.	10,365	10,207
Blue Stream Pipeline Company B.V.	7,274	7,622
Nord Stream AG	4,007	-
WINGAS GmbH & Co. KG	3,835	3,238
Purchased crude oil and refined products		
OAO NGK Slavneft and its subsidiaries	69,695	53,146
OAO Tomskneft VNK and its subsidiaries	46,267	34,864
Salym Petroleum Development N.V.	32,540	26,452
Processing services purchases		
OAO NGK Slavneft and its subsidiaries	8,113	7,835

* In December 2011 the Group acquired the remaining 50% shares in OAO Beltransgaz. As a result of this transaction Beltransgaz became a subsidiary of the Group (see Note 33).

**Wintershall Erdgas Handelshaus Zug AG (WIEE) is the subsidiary of Wintershall Erdgas Handelshaus GmbH &Co.KG (WIEH).

*** In December 2011 the Group acquired the remaining 50% shares in Promgaz S.p.A. As a result of this transaction Promgaz S.p.A became a subsidiary of the Group.

**** In May 2011 the Group acquired 50% shares in the GWH Gazhandel GmbH. As a result of this transaction, GWH Gazhandel GmbH became a subsidiary of the Group.

***** In December 2010 the Group sold its 9.4% shares in OAO NOVATEK. As a result of this transaction, the Group ceased to have a significant impact on the company OAO NOVATEK.

(In millions of Russian Roubles)

39 RELATED PARTIES (continued)

Gas is sold to associated undertakings in the Russian Federation mainly at the rates established by the FTS. Gas is sold outside the Russian Federation under long-term contracts based on world commodity prices.

	As of 31 December 2011		As of 31 December 2010	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Short-term accounts receivable and prepayments				
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	16,325	-	7,253	-
OAO Gazprom neftekhim Salavat	8,532	-	10,829	-
ZAO Panrusgaz	8,117	-	8,087	-
WINGAS GmbH & Co.KG	7,908	-	7,870	-
AO Overgaz Inc.	7,410	-	5,820	-
AO Moldovagaz*	4,388	-	2,717	-
AO Gazum	4,077	-	5,164	-
OAO NGK Slavneft and its subsidiaries	3,361	-	1,238	-
AO Lietuvos dujos	2,319	-	2,103	-
Wintershall Erdgas Handelshaus Zug AG (WIEE)	1,485	-	2,763	-
ZAO Gazprom YRGM trading	1,458	-	1,432	-
ZAO Gazprom YRGM Development	1,042	-	1,023	-
TOO KazRosGaz	717	-	647	-
OAO Gazprombank	615	-	1,567	-
Promgaz S.p.A.**	-	-	2,143	-
RosUkrEnergo AG	-	-	81,622	-
OAO Beltransgaz***	-	-	14,972	-
OAO Sibur Holding and its subsidiaries****	-	-	498	-
Short-term promissory notes				
OAO Gazprombank	372	-	1,485	
Cash balances in associated undertakings				
OAO Gazprombank	251,350	-	215,272	-
Long-term accounts receivable and prepayments				
WINGAS GmbH & Co. KG	15,952	-	15,439	-
Gas Project Development Central Asia AG	1,707	-	1,602	-
Bosphorus Gaz Corporation A.S.	870	-	-	-
Salym Petroleum Development N.V.	567	-	4,806	-
OAO Sibur Holding and its subsidiaries****	-	-	3,894	-
Long-term promissory notes				
OAO Gazprombank	646	-	943	-
Short-term accounts payable				
SGT EuRoPol GAZ S.A.	-	6,997	-	6,976
ZAO Gazprom YRGM trading	-	6,761	-	6,466
ZAO Gazprom YRGM Development	-	4,388	-	4,984
TOO KazRosGaz	-	3,267	-	4,336
WINGAS GmbH & Co.KG	-	2,956	-	2,806
Nord Stream AG		1,999		-
OAO NGK Slavneft and its subsidiaries	-	1,976	-	1,394
Salym Petroleum Development N.V.	-	514	-	2,635
OAO Gazprombank	-	134	-	708
RosUkrEnergo AG	-	-	-	8,447
OAO Sibur Holding and its subsidiaries****	-	-	-	3,777
Promgaz S.p.A**	-	-	-	1,583
OAO Beltransgaz***	-	-	-	1,297

(In millions of Russian Roubles)

39 RELATED PARTIES (continued)

	As of 31 December 2011		As of 31 December 2010	
	Assets	Liabilities	Assets	Liabilities
Other non-current liabilities				
ZAO Gazprom YRGM trading	-	2,390	-	3,187
ZAO Gazprom YRGM Development	-	372	-	497
OAO Sibur Holding and its subsidiaries****	-	-	-	1,115
Short-term loans from associated companies (including current portion of long-term liabilities)				
OAO Gazprombank	-	11,202	-	6,973
RosUkrEnergo AG	-	10,778	-	-
OAO Tomskneft VNK and its subsidiaries	-	6,647	-	7,027
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	-	1,095	-	2,527
Long-term loans from associated undertaking				
OAO Gazprombank	-	16,229	-	3,770

* Net of impairment provision on accounts receivable in the amount of RR 92,643 and RR 69,305 as of 31 December 2011 and 2010 respectively.
** In December 2011 the Group acquired the remaining 50% shares in Promgaz S.p.A. As a result of this transaction Promgaz S.p.A became a subsidiary of the Group.
*** In November 2011 the Group acquired the remaining 50% shares in OAO Beltransgaz. As a result of this transaction Beltransgaz became a subsidiary of the Group (see Note 33).
**** In September 2011 the Group ceased to have a significant influence on OAO Sibur Holding.

Investments in associated undertakings and jointly controlled entities are disclosed in Note 13.
See Note 40 for financial guarantees issued by the Group on behalf of associated undertakings and jointly controlled entities.

40 COMMITMENTS AND CONTINGENCIES

Financial guarantees

	31 December 2011	31 December 2010
Outstanding guarantees issued on behalf of:		
Nord Stream AG	105,616	50,005
Sakhalin Energy Investment Company Ltd.	103,220	100,260
Blue Stream Pipeline Company B.V.	7,976	12,974
EM Interfinance Limited	5,869	5,694
Blackrock Capital Investments Limited	4,985	4,824
Devere Capital International Limited	1,958	4,217
OAO Group E4	1,498	1,450
ZAO Achimgaz	387	4,330
OOO Severny Europeysky Trubny Proekt	-	27,227
OOO Torgovy Dom Truboprovod	-	8,305
OOO Production Company VIS	-	4,472
Other	31,806	17,619
	263,315	**241,377**

In 2011 and in prior periods counterparties fulfilled their obligations. The maximum exposure to credit risk in relation to financial guarantees is RR 263,315 and RR 241,377 as of 31 December 2011 and 2010, respectively.

Included in financial guarantees are amounts denominated in USD of USD 4,129 million and USD 4,374 million as of 31 December 2011 and 2010, respectively, as well as amounts denominated in Euro of Euro 2,815 million and Euro 1,494 million as of 31 December 2011 and 2010, respectively.

In July 2005 Blue Stream Pipeline Company B.V. (BSPC) refinanced some of the existing liabilities, guaranteed by the Group, by means of repayment of the liabilities to a group of Italian and Japanese banks. For the purpose of this transaction loans in the amount of USD 1,185.3 million were received from Gazstream S.A. The Group guaranteed the above loans. As of 31 December 2011 and 2010, outstanding amounts of these loans were RR 7,976 (USD 248 million) and RR 12,974 (USD 426 million), respectively, which were guaranteed by the Group, pursuant to its obligations.

40 COMMITMENTS AND CONTINGENCIES (continued)

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) bonds issued by five financing entities: Devere Capital International Limited, Blackrock Capital Investments Limited,DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited (registered in Ireland) in regard to bonds issued with due dates December 2012, June 2018, December 2009, December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by SGT EuRoPol GAZ S.A. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. As a result as of 31 December 2011 and 2010 the guarantees issued on behalf of Devere Capital International Limited, Blackrock Capital Investments Limited and EM Interfinance Limited amounted to RR 12,812 (USD 398 million) and RR 14,735 (USD 483 million), respectively.

In 2007 the Group provided a guarantee to Wintershall Vermogens-Verwaltungsgesellschaft mbH on behalf of ZAO Achimgaz as a security of loans received and used for additional financing of the pilot implementation of the project on the development of Achimsky deposits of the Urengoy field. The Group's liability with respect to loans is limited by 50% in accordance with the ownership interest in ZAO Achimgaz. As of 31 December 2011 and 2010 the above guarantee amounted to RR 387 (Euro 9 million) and RR 4,330 (Euro 107 million), respectively.

In May 2008 the Group provided a guarantee to OAO Bank of Moscow on behalf of OAO Group E4 as a security of loans for obligations under contracts for delivering of power units. As of 31 December 2011 and 2010 the above guarantee amounted to RR 1,498 (Euro 36 million) and RR 1,450 (Euro 36 million), respectively.

In June 2008 the Group provided a guarantee to the Bank of Tokyo-Mitsubishi UFJ Ltd. on behalf of Sakhalin Energy Investment Company Ltd. under the credit facility up to the amount of the Group's share (50%) in the obligations of Sakhalin Energy Investment Company Ltd. toward the Bank of Tokyo-Mitsubishi UFJ Ltd. As of 31 December 2011 and 2010 the above guarantee amounted to RR 103,220 (USD 3,206 million) and RR 100,260 (USD 3,290 million), respectively.

In January 2010 the Group provided a guarantee to OAO Bank VTB on behalf of OOO Production Company VIS as a security of credit facility for financing of projects of construction industrial units for Gazprom Group, including priority investment projects of construction generating capacities of OAO WGC-6 (merged with WGC-2 in November 2011, see Note 34). As of 31 December 2010 the above guarantee amounted to RR 4,472. In September 2011 this credit facility was repaid.

In March 2010 the Group provided a guarantee to Societe Generale on behalf of Nord Stream AG under the credit facility for financing of Nord Stream gas pipeline Phase 1 construction completion. According to guarantee agreements the Group has to redeem debt up to the amount of the Group's share (51%) in the obligations of Nord Stream toward the Societe Generale in the event that Nord Stream fail to repay those amounts. As of 31 December 2011 and 2010 the above guarantee within the Group's share in Nord Stream AG obligations to the bank amounted to RR 72,205 (Euro 1,733 million) and RR 50,005 (Euro 1,240 million), respectively.

In May 2011 the Group provided a guarantee to Societe Generale on behalf of Nord Stream AG under the credit facility for financing of Nord Stream gas pipeline Phase 2 construction completion. According to guarantee agreements the Group has to redeem debt up to the amount of the Group's share (51%) in the obligations of Nord Stream toward the Societe Generale in the event that Nord Stream fail to repay those amounts. As of 31 December 2011 the above guarantee within the Group's share in Nord Stream AG obligations to the bank amounted to RR 33,411 (Euro 802 million).

In November 2010 the Group provided a guarantee to OAO Gazprombank on behalf of OOO Severny Europeysky Trubny Proekt as a security of credit facility for payments settlement with suppliers of pipes supplied to subsidiaries of OAO Gazprom. As of 31 December 2010 the above guarantee amounted to RR 27,227. In February 2011 this credit facility was repaid.

In November 2010 the Group provided a guarantee to OAO Gazprombank on behalf of OOO Torgovy Dom Truboprovod as a security of credit facility for payments settlement with suppliers of pipes supplied to subsidiaries of OAO Gazprom. As of 31 December 2010 the above guarantee amounted to RR 8,305. In February 2011 this credit facility was repaid.

Claims

In December 2010 RWE Transgas, a.s. filed a lawsuit against the Group to international arbitration demanding reconsideration of long-term contract prices for gas supplies. The matter is currently under consideration of arbitration court. Negotiations with RWE Transgas, a.s. on the contract prices are in progress. Management of the Group cannot estimate potential exposure in respect of this claim.

40 COMMITMENTS AND CONTINGENCIES (continued)

In July 2011 E.ON Ruhrgas AG filed a lawsuit against the Group to international arbitration demanding reconsideration of long-term contracts prices for gas supplies. The consideration of the case has not been assigned yet. Negotiations with E.ON Ruhrgas AG on the contract prices are in progress. Management of the Group cannot estimate potential exposure in respect of this claim.

In November 2011 Polskie Gornictwo Naftowe i Gazownictwo SA (PGNiG SA) filed a lawsuit against the Group to international arbitration demanding reconsideration of long-term contracts prices for gas supplies. The consideration of the case has not been assigned yet. Negotiations with PGNiG SA on the contract prices are in progress. Management of the Group cannot estimate potential exposure in respect of this claim.

Other

The Group has transportation agreements with certain of its associated undertakings and jointly controlled entities (see Note 39). In November 2011 the Group began commercial gas deliveries through Nord Stream and commenced the transportation agreement with Nord Stream AG.

Capital commitments

In December 2011 the Board of Directors approved a RR 777 billion investment programme for 2012. Currently the company is reviewing the investment program.

Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 December 2011 no loss is expected to result from these long-term commitments.

41 OPERATING RISKS

Operating environment

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in the Russian Federation. Due to the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. It is impossible to predict the nature and frequency of these developments and events associated with these risks as well as their effect on future operations and earnings of the Group.

The future economic direction of the Russian Federation is largely dependent upon the world economic situation, effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Legal proceedings

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

Taxation

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments.

Management believes that its interpretation of the relevant legislation as of 31 December 2011 is appropriate and all of the Group's tax, currency and customs positions will be sustainable.

Group changes

The Group is continuing to be subject to reform initiatives in the Russian Federation and in some of its export markets. The future direction and effects of any reforms are the subject of political considerations. Potential reforms in the structure of the Group, tariff setting policies, and other government initiatives could each have a significant, but undeterminable, effect on enterprises operating in the Group.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be

(In millions of Russian Roubles)

41 OPERATING RISKS (continued)

reliably estimated, but could be material. In the current enforcement climate under existing legislation, the Group management believes that there are no significant liabilities for environmental damage, other than amounts that have been accrued in the consolidated financial statements.

Social commitments

The Group significantly contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees in the areas of its production operations mainly in the northern regions of Russian Federation, including contributions toward the construction, development and maintenance of housing, hospitals, transport services, recreation and other social needs.

42 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the financial performance of the Group.

Risks are managed centrally and to some extent at the level of subsidiaries in accordance with Group policies.

Market risk

Market risk is a risk that changes in market prices, such as foreign currency exchange rates, interest rates, commodity prices and prices of marketable securities, will affect the Group's financial results or the value of its holdings of financial instruments.

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

The carrying amounts of the Group's financial instruments are denominated in the following currencies:

Notes		Russian Rouble	US dollar	Euro	Other	Total
	As of 31 December 2011					
	Financial assets					
	Current					
8	Cash and cash equivalents	316,735	127,359	37,108	20,142	501,344
9	Short-term financial assets (excluding equity securities)	2,328	1,494	16,761	66	20,649
10	Trade and other accounts receivable	332,520	195,715	99,493	25,054	652,782
	Non-current					
14	Long-term accounts receivable	152,342	28,938	-	2,996	184,246
15	Available for sale long-term financial assets (excluding equity securities)	1,348	-	-	-	1,348
	Total financial assets	**805,273**	**353,506**	**153,362**	**48,228**	**1,360,369**
	Financial liabilities					
	Current					
17	Accounts payable and accrued charges	574,982	44,687	34,456	39,707	693,832
19	Short-term borrowings, promissory notes and current portion of long-term borrowings	87,006	193,092	70,039	16,731	366,868
	Non-current					
20	Long-term borrowings	145,252	755,455	272,175	412	1,173,294
	Total financial liabilities	**807,240**	**993,234**	**376,670**	**56,850**	**2,233,994**

(In millions of Russian Roubles)

42 FINANCIAL RISK FACTORS (continued)

Notes		Russian Rouble	US dollar	Euro	Other	Total
	As of 31 December 2010					
	Financial assets					
	Current					
8	Cash and cash equivalents	225,802	150,337	50,477	14,170	440,786
9	Short-term financial assets (excluding equity securities)	5,127	-	-	37	5,164
10	Trade and other accounts receivable	303,687	165,401	45,505	25,010	539,603
	Non-current					
14	Long-term accounts receivable	127,734	38,859	-	569	167,162
15	Available for sale long-term financial assets (excluding equity securities)	1,211	1,311	-	24	2,546
	Total financial assets	**663,561**	**355,908**	**95,982**	**39,810**	**1,155,261**
	Financial liabilities					
	Current					
17	Accounts payable and accrued charges	483,817	25,289	15,322	24,355	548,783
19	Short-term borrowings, promissory notes and current portion of long-term borrowings	44,791	105,095	22,560	18,606	191,052
	Non-current					
20	Long-term borrowings	100,598	726,423	289,006	8,368	1,124,395
	Total financial liabilities	**629,206**	**856,807**	**326,888**	**51,329**	**1,864,230**

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in selected foreign currencies.

As of 31 December 2011, if the Russian Rouble had weakened by 10% against the US dollar with all other variables held constant, profit before profit tax would have been lower by RR 63,973, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. As of 31 December 2010, if the Russian Rouble had weakened by 10% against the US dollar with all other variables held constant, profit before profit tax would have been lower by RR 50,090, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables.

As of 31 December 2011, if the Russian Rouble had weakened by 10% against Euro with all other variables held constant, profit before profit tax would have been lower by RR 22,331 mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. As of 31 December 2010, if the Russian Rouble had weakened by 10% against Euro with all other variables held constant, profit before profit tax would have been lower by RR 23,091 mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables.

(b) Cash flow and fair value interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group's interest rate risk primarily arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The table below summarises the balance between long-term borrowings at fixed and at variable interest rates:

(In millions of Russian Roubles)

42 FINANCIAL RISK FACTORS (continued)

Long-term borrowings	**31 December**	
	2011	**2010**
At fixed rate	1,191,984	1,065,435
At variable rate	283,252	186,531
Total	**1,475,236**	**1,251,966**

The Group does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether obtaining financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

During 2011 and 2010, the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

As of 31 December 2011, if interest rates on US dollar and Euro denominated borrowings at these dates had been 2.0% higher with all other variables held constant, profit before profit tax would have been lower by RR 5,665 for 2011 mainly as a result of higher interest expense on floating rate borrowings. As of 31 December 2010, if interest rates on US dollar and Euro denominated borrowings at these dates had been 2.0% higher with all other variables held constant, profit before profit tax would have been lower by RR 3,730 for 2010 mainly as a result of higher interest expense on floating rate borrowings. The effect of a corresponding decrease in interest rates is approximately equal and opposite.

(c) Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for natural gas, crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows. An extended period of low prices could precipitate a decrease in development activities and could cause a decrease in the volume of reserves available for transportation and processing through the Group's systems or facilities and ultimately impact the Group's ability to deliver under its contractual obligations.

The Group's overall strategy in production and sales of natural gas, crude oil and related products is centrally managed. Substantially all the Group's natural gas, gas condensate and other hydrocarbon export sales to Europe and other countries are sold under long-term contracts. Natural gas export prices to Europe and other countries are based on a formula linked to world oil product prices, which in turn are linked to world crude oil prices.

The Group's exposure to the commodity price risk is related essentially to the export market. As of 31 December 2011, if the average gas prices related to the export market had weakened by 10% with all other variables held constant, profit before profit tax would have been lower by RR 207,624 for 2011. The Group's exposure to the commodity price risk is related essentially to the export market. As of 31 December 2010, if the average gas prices related to the export market had weakened by 10% with all other variables held constant, profit before profit tax would have been lower by RR 154,936 for 2010.

The Russian gas tariffs are regulated by the Federal Tariffs Service and are as such less subject to significant price fluctuations.

The Group assesses on regular basis the potential scenarios of future fluctuation in commodity prices and their impacts on operational and investment decisions.

However, in the current environment management estimates may materially differ from actual future impact on the Group's financial position.

(d) Securities price risk

The Group is exposed to movements in the equity securities prices because of financial assets held by the Group and classified on the consolidated balance sheet either as available for sale or at fair value through profit or loss (Notes 9 and 15).

As of 31 December 2011, if MICEX equity index, which affects the major part of Group's equity securities, had decreased by 20% with all other variables held constant, assuming the Group's equity instruments moved according to the historically high correlation with the index, group's profit before profit tax for the year would have been RR 56,722 lower.

As of 31 December 2010, if MICEX equity index, which affects the major part of Group's equity securities, had decreased by 20% with all other variables held constant, assuming the Group's equity instruments moved according to the historically high correlation with the index, group's profit before profit tax for the year would have been RR 60,530 lower.

(In millions of Russian Roubles)

42 FINANCIAL RISK FACTORS (continued)

The Group is also exposed to equity securities prices used to assess the fair value of pension plan assets held by NPF Gazfund (see Note 23).

Credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations. The maximum exposure to credit risk is the value of the assets which might be lost.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Financial instruments, which potentially subject the Group to concentrations of credit risk, primarily consist of accounts receivable including promissory notes. Credit risks related to accounts receivable are systematically monitored taking into account customer’s financial position, past experience and other factors.

Management systematically reviews ageing analysis of receivables and uses this information for calculation of impairment provision (see Note 10). Credit risk exposure mainly depends on the individual characteristics of customers, more particularly customers default risk and country risk. Group operates with various customers and substantial part of sales relates to major customers.

Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash and cash equivalents are deposited only with banks that are considered by the Group to have a minimal risk of default.

The Group’s maximum exposure to credit risk is presented in the table below.

	31 December	
	2011	**2010**
Cash and cash equivalents	501,344	440,786
Debt securities	20,649	5,164
Long-term and short-term trade and other accounts receivable	839,196	708,727
Financial guarantees	263,315	241,377
Total maximum exposure to credit risk	**1,624,504**	**1,396,054**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. The Group liquidity is managed centrally. The management of the Group monitors the planned cash inflow and outflow.

Important factor in the Group’s liquidity risk management is an access to a wide range of funding through capital markets and banks. Management aim is to maintain flexibility in financing sources by having undrawn committed facilities available.

The Group believes that it has significant funding through the commercial paper markets or through undrawn committed borrowing facilities to meet foreseeable borrowing requirements (see Note 41).

The table below analyses the Group’s financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

(In millions of Russian Roubles)

42 FINANCIAL RISK FACTORS (continued)

	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
As of 31 December 2011					
Short-term and long-term loans and borrowings and promissory notes	234,973	131,895	264,547	586,574	322,173
Trade and other payables	657,408	36,424	-	-	-
Financial guarantees	7,246	9,989	24,716	73,391	147,973
As of 31 December 2010					
Short-term and long-term loans and borrowings and promissory notes	94,953	96,099	166,853	551,310	406,232
Trade and other payables	530,572	18,211	-	-	-
Financial guarantees	7,193	43,342	17,145	74,811	98,886

See discussion of financial derivatives in Note 22.

The Group's borrowing facilities do not usually include financial covenants which could trigger accelerated reimbursement of financing facilities. For those borrowing facilities where the Group has financial covenants, the Group is in compliance.

Capital risk management

The Group considers equity and debt to be the principal elements of capital management. The Group's objectives when managing capital are to safeguard the Group's position as a leading global energy company by further increasing the reliability of natural gas supplies and diversifying activities in the energy sector, both in the domestic and foreign markets.

In order to maintain or adjust the capital structure, the Group may revise its investment program, attract new or repay existing loans and borrowings or sell certain non-core assets.

On the Group level capital is monitored on the basis of the net debt to adjusted EBITDA ratio. This ratio is calculated as net debt divided by adjusted EBITDA. Net debt is calculated as total debt (short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable and restructured tax liabilities) less cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations.

Adjusted EBITDA is calculated as operating profit less depreciation and less provision for impairment of assets (excluding provisions for accounts receivable and prepayments).

The net debt to adjusted EBITDA ratios at 31 December 2011 and 2010 were as follows:

	31 December 2011	31 December 2010
Total debt	1,540,162	1,315,448
Less: cash and cash equivalents and certain restricted cash	(505,221)	(444,455)
Net debt	1,034,941	870,993
Adjusted EBITDA	1,930,533	1,363,778
Net debt/Adjusted EBITDA ratio	**0.54**	**0.64**

OAO Gazprom presently has an investment grade credit rating of BBB (stable outlook) by Standard & Poor's and BBB (stable outlook) by Fitch Ratings.

43 POST BALANCE SHEET EVENTS

Borrowings and loans

In February 2012 the Group obtained the loan from RosUkrEnergo AG in the amount of USD 183 million due in December 2012 at an interest rate of 3.5%. under terms of the agreement signed in January 2011.

In February 2012 the Group issued bonds in the amount of RR 10,000 due in 2022 at an interest rate of 8.25%. The bonds have an option for early redemption in three years from the placement date.

The Company may be contacted at its registered office:

OAO Gazprom
Nametkina str., 16
V-420, GSP-7, 117997, Moscow
Russia

Telephone: (7 495) 719 3001
Facsimile: (7 495) 719 8333, 719 8335
www.gazprom.ru (in Russian)
www.gazprom.com (in English)