OAO GAZPROM

IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

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 2012 and the consolidated statements of comprehensive income, cash flows and changes in equity for 2012, and notes comprising a summary of significant accounting policies and other explanatory information.

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 the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 consolidated 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 express an opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for 2012 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

29 April 2013

Moscow, Russian Federation

M.E. Timchenko, Director (licence no. 01-000267), ZAO PricewaterhouseCoopers Audit

Audited entity: OAO Gazprom

State registration certificate № 022.726, issued by the Moscow Registration Chamber on 25 February 1993

Certificate of inclusion in the Unified State Register of Legal Entities issued on 2 August 2002 under registration № 1027700070518

Russian Federation, 117997, Moscow, Nametkina str., 16

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

(In millions of Russian Roubles)

Notes		31 December 2012	31 December 2011
	Assets		
	Current assets		
8	Cash and cash equivalents	419,536	501,344
8	Restricted cash	3,658	3,877
9	Short-term financial assets	16,962	23,991
10	Accounts receivable and prepayments	940,106	784,053
11	Inventories	459,534	407,530
	VAT recoverable	395,250	303,454
	Other current assets	173,700	216,044
		2,408,746	2,240,293
	Non-current assets		
12	Property, plant and equipment	7,818,392	6,718,575
13	Investments in associated undertakings and jointly controlled entities	653,187	715,966
14	Long-term accounts receivable and prepayments	491,018	517,097
15	Available-for-sale long-term financial assets	161,701	181,138
16	Other non-current assets	535,095	527,627
		9,659,393	8,660,403
	Total assets	12,068,139	10,900,696
	Liabilities and equity		
	Current liabilities		
17	Accounts payable and accrued charges	1,040,274	804,644
	Current profit tax payable	7,463	44,036
18	Other taxes payable	115,273	93,707
19	Short-term borrowings, promissory notes and current portion of long-term borrowings	326,807	366,868
		1,489,817	1,309,255
	Non-current liabilities		
20	Long-term borrowings	1,177,934	1,173,294
23	Provisions for liabilities and charges	243,506	206,734
21	Deferred tax liabilities	429,305	402,728
	Other non-current liabilities	26,483	47,694
		1,877,228	1,830,450
	Total liabilities	3,367,045	3,139,705
	Equity		
24	Share capital	325,194	325,194
24	Treasury shares	(104,094)	(104,605)
24	Retained earnings and other reserves	8,170,631	7,242,982
		8,391,731	7,463,571
32	Non-controlling interest	309,363	297,420
	Total equity	8,701,094	7,760,991
	Total liabilities and equity	12,068,139	10,900,696

A.B. Miller
Chairman of the Management Committee
29 April 2013

E.A. Vasilieva
Chief Accountant
29 April 2013

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 2012
(In millions of Russian Roubles)

Notes		Year ended 31 December 2012	2011
25	Sales	4,764,411	4,637,090
	Net gain from trading activity	2,821	2,791
26	Operating expenses	(3,481,264)	(2,942,181)
26	Reversal of (charge for) impairment and other provisions, net	3,208	(40,857)
	Operating profit	**1,289,176**	**1,656,843**
27	Finance income	307,871	190,488
27	Finance expense	(247,138)	(267,823)
13	Share of net income of associated undertakings and jointly controlled entities	161,500	99,049
	Gains on disposal of available-for-sale financial assets	546	1,379
	Profit before profit tax	**1,511,955**	**1,679,936**
	Current profit tax expense	(276,045)	(279,216)
	Deferred profit tax expense	(25,344)	(58,278)
21	Profit tax expense	(301,389)	(337,494)
	Profit for the year	**1,210,566**	**1,342,442**
	Other comprehensive income		
	Losses arising from change in fair value of available-for-sale financial assets, net of tax	(17,499)	(7,669)
	Share of other comprehensive gain (loss) of associated undertakings and jointly controlled entities	1,885	(19,302)
	Translation differences	(32,366)	19,342
	Gains from cash flow hedges, net of tax	806	-
	Other comprehensive loss for the year, net of tax	**(47,174)**	**(7,629)**
	Total comprehensive income for the year	**1,163,392**	**1,334,813**
	Profit attributable to:		
	owners of OAO Gazprom	1,182,625	1,307,018
32	non-controlling interest	27,941	35,424
		1,210,566	**1,342,442**
	Total comprehensive income attributable to:		
	owners of OAO Gazprom	1,137,257	1,297,891
	non-controlling interest	26,135	36,922
		1,163,392	**1,334,813**
29	**Basic and diluted earnings per share for profit attributable to the owners of OAO Gazprom (in Roubles)**	**51.53**	**56.95**

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OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012
(In millions of Russian Roubles)

Notes		Year ended 31 December 2012	2011
	Operating activities		
30	**Net cash provided by operating activities**	**1,445,617**	**1,637,450**
	Investing activities		
12	Capital expenditures	(1,339,878)	(1,553,118)
	Net change in loans issued	(5,566)	(6,469)
	Interest received	24,379	14,950
12	Interest paid and capitalised	(66,873)	(58,507)
33,34,36	Acquisition of subsidiaries, net of cash acquired	(55,810)	(111,001)
13	Investment in associated undertakings and jointly controlled entities	(15,063)	(18,405)
	Proceeds from sales of interest in subsidiaries	-	12,307
13	Proceeds from associated undertakings and jointly controlled entities	189,692	118,495
	Net change of long-term available-for-sale financial assets	(1,141)	(1,369)
	Change in other long-term financial assets	2,950	(2,128)
	Net cash used for investing activities	**(1,267,310)**	**(1,605,245)**
	Financing activities		
20	Proceeds from long-term borrowings	236,130	331,226
20	Repayment of long-term borrowings (including current portion)	(259,653)	(168,157)
	Net repayment of promissory notes	(2)	(156)
19	Net repayment of short-term borrowings	(2,831)	(7,345)
24	Dividends paid	(197,037)	(93,977)
	Interest paid	(26,718)	(28,950)
24	Sales (purchases) of treasury shares	511	(619)
	Change in restricted cash	219	(208)
	Net cash (used for) provided by financing activities	**(249,381)**	**31,814**
	Effect of exchange rate changes on cash and cash equivalents	(10,734)	(3,461)
	(Decrease) increase in cash and cash equivalents	**(81,808)**	**60,558**
	Cash and cash equivalents, at the beginning of the reporting year	501,344	440,786
	Cash and cash equivalents, at the end of the reporting year	**419,536**	**501,344**

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OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012
(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 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
	Profit for the year		-	-	1,182,625	1,182,625	27,941	1,210,566
	Other comprehensive income:							
	Losses arising from change in fair value of available-for-sale financial assets, net of tax		-	-	(17,499)	(17,499)	-	(17,499)
	Share of other comprehensive gain of associated undertakings and jointly controlled entities		-	-	1,885	1,885	-	1,885
24,32	Translation differences		-	-	(30,471)	(30,471)	(1,895)	(32,366)
	Gains from cash flow hedges, net of tax		-	-	717	717	89	806
	Total comprehensive income for the year ended 31 December 2012		-	-	1,137,257	1,137,257	26,135	1,163,392
32	Purchase of non-controlling interest in subsidiaries		-	-	(3,726)	(3,726)	(10,869)	(14,595)
24	Return of social assets to governmental authorities		-	-	(16)	(16)	-	(16)
24	Net treasury shares transactions		-	511	-	511	-	511
24	Dividends		-	-	(205,866)	(205,866)	(3,323)	(209,189)
	Balance as of 31 December 2012	22.9	325,194	(104,094)	8,170,631	8,391,731	309,363	8,701,094

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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 the 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 2012 and 2011 was 417 thousand and 401 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 39).

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects 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 the 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 2012 and 2011 are described below.

In May 2012 the Group acquired an additional 18.48% interest in OAO Gazprom neftekhim Salavat for cash consideration of RR 18,458 increasing its interest to 87.51% and, as a result, obtained control over OAO Gazprom neftekhim Salavat. During the period from September 2012 to December 2012 as a result of series of transactions, the Group acquired an additional 10.33% interest in the ordinary shares of OAO Gazprom neftekhim Salavat for cash consideration of RR 10,318 increasing its interest to 97.84% (see Note 33).

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 Gazprom transgaz Belarus for cash

4 SCOPE OF CONSOLIDATION (continued)

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 OAO Gazprom transgaz Belarus (see Note 34).

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 36).

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 or groups of cash generating units, as appropriate.

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 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 the 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 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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Hedge accounting

The Group applies hedge accounting policy for those derivatives that are designated as a hedging instrument.

The Group has designated only cash flow hedges – hedges against the exposure to the variability of cash flow currency exchange rates on highly probable forecast transactions. The effective portion of changes in the fair value of derivatives which are designated and qualify as cash flow hedges is recognised in other comprehensive income. Any ineffective portion is ultimately recognised in profit and loss. Changes in the fair value of certain derivative instruments which do not qualify for hedge accounting are recognised immediately in profit and loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss on any associated hedging instrument that was reported in equity is immediately transferred to profit and loss.

5.5 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 2012 and 2011.

(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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 – 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.

5.6 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.

5.7 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.

5.8 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 is not recoverable and is included in the value of acquired goods, works and services.

VAT related to purchases (input VAT) and also VAT prepayments are recognised in the consolidated balance sheet within other current assets, while VAT related to sales (output VAT) is disclosed separately as a current liability. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.9 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 509 per mcm effective since 1 January 2012 and RR 237 per mcm in 2011). NRPT for crude oil is defined monthly as an amount of volume produced per fixed tax rate (RR 446 per ton effective since 1 January 2012 and RR 419 per ton in 2011) 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 fields (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). Before 1 January 2012 NRPT on gas condensate was defined as a fixed percentage from the value of the extracted mineral resource (NRPT tax rate was 17.5%), in 2012 NRPT on gas condensate is calculated by multiplying volumes of gas condensate extracted on specific fixed rate (RR 556 per ton). Natural resources production tax is accrued as a tax on production and recorded within operating expenses.

5.10 Customs duties

The export of hydrocarbons outside of the Customs union which includes the Russian Federation, Belarus and Kazakhstan, 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 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 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.

5.11 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 owning 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.

5.12 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.

5.13 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

(In millions of Russian Roubles)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

5.14 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) to which goodwill relates. 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.

5.15 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.

5.16 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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

5.17 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.

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 30.37 and 32.20 as of 31 December 2012 and 2011, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 40.23 and 41.67 as of 31 December 2012 and 2011, 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.

5.18 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.

5.19 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 in the period.

5.20 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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

The 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.

5.21 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.

5.22 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.

5.23 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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

5.24 Recent accounting pronouncements

In 2012 the Group has adopted all IFRS, amendments and interpretations which are effective 1 January 2012 and which are relevant to its operations.

(a) Standards, Amendments or Interpretations effective in 2012

Amendment to IFRS 7 "Financial Instruments: Disclosures" ("IFRS 7"), issued in October 2010 and 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.

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 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" which requires retrospective application unless the new standard requires otherwise.

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

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 application of this standard is not expected to materially affect the Group's 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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

"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 application of this standard is not expected to materially affect the Group's 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 considering that some of its investments in jointly controlled companies might be classified as investments in joint operations under IFRS 11. Thus effective 1 January 2013 the Group will cease application of the equity method of accounting with regard to those investments and will start recognizing the Group's share in assets, liabilities, revenues and costs of the joint operations. The application of IFRS 11 is not expected to materially affect the Group's financial position or total comprehensive income.

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 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 application of this standard is not expected to materially affect the Group's 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 application of this standard is not expected to materially affect the Group's consolidated financial statements.

Amended IAS 27 "Separate Financial Statements" ("IAS 27"), issued in 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 in 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 application of this standard is not expected to materially affect the Group's consolidated financial statements.

Amendments to IAS 1 "Presentation of financial statements" ("IAS 1"), issued in June 2011 and 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 application of this standard is not expected to materially affect the Group's consolidated financial statements.

Amended IAS 19 "Employee benefits" ("IAS 19"), issued in 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 application of this standard will increase the balance sheet liability of the Group by RR 217,664 due to the requirement for immediate recognition of actuarial gains and losses (remeasurements) in other comprehensive income. The retrospective application of the standard to the 2012 statement of comprehensive income will require the reclassification of certain items totalling RR 50,431 from pension expense to other comprehensive income. The future volatility of the balance sheet liability and other comprehensive income of the Group may also increase.

Remeasurements recognized in other comprehensive income will not be recycled through profit or loss in subsequent periods. In addition, all unrecognized past service cost will be immediately recognized as a part of the balance sheet liability of the Group as a result of application of the amended IAS 19. Other changes

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

introduced by the amendment of IAS 19 will have a less significant impact on the Group's financial statements.

Improvements to International Financial Reporting Standards, issued in May 2012 and effective for annual periods beginning on or after 1 January 2013. The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations:

Amendment to IAS 1 "Presentation of financial statements" ("IAS 1") clarifies that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes as required by IAS 8 "Accounting policies, changes in accounting estimates and errors" ("IAS 8"), while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements.

Amendment to IAS 16 "Property, plant and equipment" ("IAS 16") clarifies that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory.

Amendment to IAS 32 "Financial instruments: Presentation" ("IAS 32") clarifies that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12, issued in June 2012 and effective for annual periods beginning on 1 January 2013. The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11, Joint Arrangements, and IFRS 12, Disclosure of Interests in Other Entities, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied.

Amendment to IFRS 10, IFRS 12 and IAS 27 issued in October 2012 and effective for annual periods beginning after 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary.

The Group is currently assessing the impact of these amendments on its 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 CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

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 positions

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 39).

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.

6.3 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 Gazprom transgaz Belarus (see Note 34).

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

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 2012 would be an increase by RR 37,014 or a decrease by RR 30,284 (2011: increase by RR 30,680 or decrease by RR 25,101).

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

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). Contracts that are valued based on non-observable market data belong to Level 3 in accordance with the valuation hierarchy. Management's best estimates based on internally developed models are used for the valuation. 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:

(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

- 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.

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 2012									
Total segment revenues	553,945	857,820	2,883,222	33,598	651,031	1,218,080	343,509	232,907	6,774,112
Inter-segment sales	544,819	732,434	235,430	32,286	375,724	9,927	-	-	1,930,620
External sales	9,126	125,386	2,647,792	1,312	275,307	1,208,153	343,509	232,907	4,843,492
Segment result	25,714	57,489	660,773	5,619	172,354	80,773	32,835	1,079	1,036,636
Depreciation	110,970	327,331	10,460	13,370	56,187	31,084	20,872	18,453	588,727
Share of net income (loss) of associated undertakings and jointly controlled entities	1,026	3,698	35,552	(165)	99,773	7,889	-	13,727	161,500
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

(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

A reconciliation of total reportable segments' 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 2012	2011
	Segment result for reportable segments	1,035,557	1,486,656
	Other segments' result	1,079	(16,556)
	Total segment result	**1,036,636**	**1,470,100**
	Difference in depreciation	254,565	201,501
	(Loss) income associated with pension obligations	(46,785)	3,811
27	Finance income (expense), net	60,733	(77,335)
	Gains on disposal of available-for-sale financial assets	546	1,379
13	Share of net income (loss) of associated undertakings and jointly controlled entities	161,500	99,049
12	Reversal of impairment provision for assets under construction	47,574	-
	Other	(2,814)	(18,569)
	Profit before profit tax	**1,511,955**	**1,679,936**

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 2012	2011
External sales for reportable segments	4,610,585	4,486,404
External sales for other segments	232,907	224,101
Total external segment sales	**4,843,492**	**4,710,505**
Differences in external sales	(79,081)	(73,415)
Total sales per the statement of comprehensive income	**4,764,411**	**4,637,090**

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 2012									
Segment assets	1,875,535	5,279,904	1,217,828	220,581	1,385,095	1,048,925	592,251	587,508	12,207,627
Investments in associated undertakings and jointly controlled entities	27,699	56,829	74,170	4,025	371,644	17,253	448	101,119	653,187
Capital additions	232,705	563,822	47,166	18,247	108,683	134,163	54,851	61,086	1,220,723
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

(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

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

	31 December 2012	31 December 2011
Segment assets for reportable segments	11,620,119	11,045,876
Other segments' assets	587,508	472,028
Total segment assets	**12,207,627**	**11,517,904**
Differences in property, plant and equipment, net*	(1,850,808)	(2,085,209)
Loan interest capitalized	323,480	264,167
Site restoration costs	91,281	75,484
Cash and cash equivalents	419,536	501,344
Restricted cash	3,658	3,877
Short-term financial assets	16,962	23,991
VAT recoverable	395,250	303,454
Other current assets	173,700	216,044
Available-for-sale long-term financial assets	161,701	181,138
Other non-current assets	535,095	527,627
Inter-segment assets	(645,226)	(801,796)
Other	235,883	172,671
Total assets per the balance sheet	**12,068,139**	**10,900,696**

* 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.

	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 2012	135,554	427,157	599,617	9,844	162,817	260,159	32,360	146,937	1,774,445
31 December 2011	129,348	421,721	468,773	7,940	263,581	172,594	33,046	137,388	1,634,391

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

	31 December 2012	31 December 2011
Segment liabilities for reportable segments	1,627,508	1,497,003
Other segments' liabilities	146,937	137,388
Total segments liabilities	**1,774,445**	**1,634,391**
Current profit tax payable	7,463	44,036
Short-term borrowings and current portion of long-term borrowings	326,807	366,868
Long-term borrowings	1,177,934	1,173,294
Provisions for liabilities and charges	243,506	206,734
Deferred tax liabilities	429,305	402,728
Other non-current liabilities	26,483	47,694
Dividends	1,779	1,888
Inter-segment liabilities	(645,226)	(801,796)
Other	24,549	63,868
Total liabilities per the balance sheet	**3,367,045**	**3,139,705**

(In millions of Russian Roubles)

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 2012	31 December 2011
Cash on hand and bank balances payable on demand	312,491	390,381
Term deposits with original maturity of three months or less	107,045	110,963
	419,536	**501,344**

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 2012	31 December 2011
Cash on hand	475	533
External credit rating of A-3 and above	303,874	131,179
External credit rating of B	93,698	347,541
No external credit rating	21,489	22,091
Total cash and cash equivalents	**419,536**	**501,344**

The sovereign credit rating of the Russian Federation published by Standard & Poor's is BBB (stable outlook).

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 2012				31 December 2011			
	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:	**4,172**	**10,849**	**-**	**15,021**	**4,053**	**-**	**-**	**4,053**
Bonds	1,606	-	-	1,606	711	-	-	711
Equity securities	2,566	10,849	-	13,415	3,342	-	-	3,342
Available-for-sale financial assets:	**910**	**1,031**	**-**	**1,941**	**17,474**	**2,464**	**-**	**19,938**
Money market fund	-	-	-	-	16,761	-	-	16,761
Bonds	910	-	-	910	713	-	-	713
Promissory notes	-	1,031	-	1,031	-	2,464	-	2,464
Total short-term financial assets	**5,082**	**11,880**	**-**	**16,962**	**21,527**	**2,464**	**-**	**23,991**

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:

(In millions of Russian Roubles)

9 SHORT-TERM FINANCIAL ASSETS (continued)

	31 December 2012	31 December 2011
External credit rating of A-3 and above	1,598	19,814
External credit rating of B	1,558	835
No external credit rating	391	-
	3,547	**20,649**

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2012	31 December 2011
Financial assets		
Trade receivables (net of impairment provision of RR 256,127 and RR 207,981 as of 31 December 2012 and 2011, respectively)	654,324	537,323
Other receivables (net of impairment provision of RR 13,225 and RR 14,043 as of 31 December 2012 and 2011, respectively)	144,541	115,459
	798,865	652,782
Non-financial assets		
Advances and prepayments (net of impairment provision of RR 622 and RR 897 as of 31 December 2012 and 2011, respectively)	141,241	131,271
Total accounts receivable and prepayments	**940,106**	**784,053**

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

As of 31 December 2012 and 2011 RR 415,159 and RR 320,246 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 2012 and 2011, trade receivables of RR 29,409 and RR 47,490, 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:

Ageing from the due date	31 December 2012	31 December 2011
Up to 6 months	17,198	21,080
From 6 to 12 months	6,192	16,189
From 1 to 3 years	5,870	9,836
More than 3 years	149	385
	29,409	**47,490**

As of 31 December 2012 and 2011, trade receivables of RR 261,295 and RR 214,364, respectively, were impaired and provided for. The gross amount of the provision was RR 256,127 and RR 207,981 as of 31 December 2012 and 2011, respectively. The individually impaired receivables mainly relate to gas sales to certain Russian regions and FSU countries, which are in difficult economic situations. In management's view the receivables will be ultimately 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	
	2012	2011	2012	2011	2012	2011
Up to 6 months	31,742	33,298	(29,895)	(28,117)	1,847	5,181
From 6 to 12 months	33,108	24,426	(30,203)	(24,232)	2,905	194
From 1 to 3 years	81,835	73,095	(81,466)	(72,692)	369	403
More than 3 years	114,610	83,545	(114,563)	(82,940)	47	605
	261,295	**214,364**	**(256,127)**	**(207,981)**	**5,168**	**6,383**

As of 31 December 2012 and 2011, trade receivables of RR 619,747 and RR 483,450, 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:

(In millions of Russian Roubles)

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

	31 December 2012	31 December 2011
Europe and other countries gas, crude oil, gas condensate and refined products debtors	280,908	242,825
FSU (excluding Russian Federation) gas, crude oil, gas condensate and refined products debtors	127,569	81,106
Domestic gas, crude oil, gas condensate and refined products debtors	124,654	94,280
Electric and heat energy sales debtors	36,994	25,377
Transportation services debtors	5,708	4,165
Other trade debtors	43,914	35,697
Total trade receivables neither past due, nor impaired	**619,747**	**483,450**

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

	Trade receivables		Other receivables	
	Year ended 31 December		Year ended 31 December	
	2012	2011	2012	2011
Impairment provision at the beginning of the year	207,981	162,374	14,043	12,641
Impairment provision accrued*	56,943	56,986	1,306	3,237
Write-off of receivables during the year**	(1,320)	(2,037)	(833)	(691)
Release of previously created provision*	(7,477)	(9,342)	(1,291)	(1,144)
Impairment provision at the end of the year	**256,127**	**207,981**	**13,225**	**14,043**

* The accrual and release of provision for impaired receivables and effect of discounting have been included in Reversal of impairment (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.

11 INVENTORIES

	31 December 2012	31 December 2011
Gas in pipelines and storage	257,320	210,384
Materials and supplies (net of an obsolescence provision of RR 3,790 and RR 4,061 as of 31 December 2012 and 2011, respectively)	90,021	102,951
Goods for resale (net of an obsolescence provision of RR 671 and RR 270 as of 31 December 2012 and 2011, respectively)	31,639	36,491
Crude oil and refined products	80,554	57,704
	459,534	**407,530**

(In millions of Russian Roubles)

12 PROPERTY, PLANT AND EQUIPMENT

	Pipelines	Wells	Machinery and equipment	Buildings and roads	Production licenses	Social assets	Assets under construction	Total
As of 31.12.10								
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**
Depreciation	(60,784)	(39,261)	(142,760)	(73,259)	(14,538)	(2,523)	-	(333,125)
Additions	3,047	804	12,204	2,785	4,358	1,273	1,312,155	1,336,626
Acquisition of subsidiaries	282	153	18,270	29,872	1,464	-	50,468	100,509
Translation differences	(1,355)	(1,075)	(3,410)	(3,674)	(325)	(34)	(1,244)	(11,117)
Transfers	642,692	143,185	505,181	357,035	-	3,957	(1,652,050)	-
Disposals	(935)	(2,701)	(10,664)	(7,886)	(1,424)	(880)	(18,520)	(43,010)
Release of impairment provision	76	52	182	30	-	-	49,594	49,934
Net book value as of 31.12.12	**1,888,114**	**738,512**	**1,683,325**	**1,639,365**	**239,050**	**61,003**	**1,569,023**	**7,818,392**
As of 31.12.12								
Cost	2,963,600	1,130,333	2,738,063	2,359,922	387,888	93,181	1,569,023	11,242,010
Accumulated depreciation	(1,075,486)	(391,821)	(1,054,738)	(720,557)	(148,838)	(32,178)	-	(3,423,618)
Net book value as of 31.12.12	**1,888,114**	**738,512**	**1,683,325**	**1,639,365**	**239,050**	**61,003**	**1,569,023**	**7,818,392**

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. Operating assets are shown net of provision for impairment of RR 54,047 and RR 54,387 as of 31 December 2012 and 2011, respectively.

Assets under construction are presented net of a provision for impairment of RR 43,378 and RR 93,538 as of 31 December 2012 and 2011, respectively. Charges for impairment provision of assets under construction primarily relate to assets for which it is not yet probable that there will be future economic benefit.

In October 2012, upon commencement of operations of the Bovanenkovo field, the Group reversed the previously created impairment provision for assets under construction related to Bovanenkovo and Kharosaveyskoe fields and the Obskaya- Bovanenkovo railroad. Total amount of the reversal of the impairment provision and included in Reversal of (charge for) impairment and other provisions, net in amounted to RR 47,574.

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 778 and RR 901 as of 31 December 2012 and 2011, respectively.

Included in additions above is capitalized interest of RR 66,873 and RR 58,507 for the years ended 31 December 2012 and 2011, respectively. Capitalization rates of 6.85% and 7.11% were used representing the weighted average borrowing cost for the years ended 31 December 2012 and 2011, respectively.

(In millions of Russian Roubles)

13 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES

Notes			Carrying value as of 31 December 2012	Carrying value as of 31 December 2011	Share of net income (loss) of associated undertakings and jointly controlled entities for 2012	Share of net income (loss) of associated undertakings and jointly controlled entities for 2011
37	OAO NGK Slavneft and its subsidiaries	Joint venture	149,208	143,449	12,303	304
37,38	Sakhalin Energy Investment Company Ltd.*	Associate	88,862	128,649	72,013	59,214
37	Gazprombank Group	Associate	86,569	60,868	12,841	19,207
37	OAO Tomskneft VNK and its subsidiaries	Joint venture	65,665	63,209	7,078	3,128
37	Salym Petroleum Development N.V.	Joint venture	43,777	41,300	8,526	2,905
37	W & G Beteiligungs-GmbH & Co. KG (WINGAS GmbH & Co. KG)** and its subsidiaries	Associate	38,216	40,068	4,710	3,768
37,38	Nord Stream AG	Joint venture	35,870	36,692	2,608	(428)
	OOO Yamal razvitie and its subsidiaries	Associate	24,328	24,642	(314)	(1,567)
	Shtokman Development AG	Joint venture	21,783	20,784	(369)	(94)
37	SGT EuRoPol GAZ S.A.	Associate	17,347	16,253	386	141
37,38	TOO KazRosGaz	Joint venture	12,819	35,663	8,485	7,896
	Wintershall AG	Associate	12,198	11,740	3,416	889
	ZAO Achimgaz	Joint venture	5,933	4,520	1,413	1,466
37	AO Latvijas Gaze	Associate	4,414	4,579	449	536
37	AO Gazum	Associate	4,089	4,123	425	708
37	AO Lietuvos dujos	Associate	2,937	3,023	324	420
37,38	Blue Stream Pipeline company B.V.	Joint venture	2,632	2,682	704	561
37	ZAO Nortgaz	Joint venture	1,128	5,521	554	804
37	RosUkrEnergo AG***	Associate	–	–	17,017	6,863
33,37	OAO Gazprom neftekhim Salavat****		–	39,381	4,269	1,149
34,37	OAO Gazprom transgaz Belarus *****		–	–	–	(11,206)
	Other (net of provision for impairment of RR 1,929 as of 31 December 2012 and 31 December 2011)		35,412	28,820	4,662	2,385
			653,187	**715,966**	**161,500**	**99,049**

* Investments in Sakhalin Energy Investment Company Ltd. decreased due to redemption of its redeemable preference shares in the amount of RR 49,925 and dividends paid in the amount of RR 61,497.

** In May 2012 WINGAS GmbH & Co. KG was renamed into W & G Beteiligungs-GmbH & Co. KG.

*** In June 2012 RosUkrEnergo AG declared dividends related to the results of its operations in 2011. Due to doubts regarding recoverability of these dividends the Group recognized its share of the profit only in July 2012 when cash was received from RosUkrEnergo AG. As of 31 December 2012 OAO Gazprom maintains a 50% interest in RosUkrEnergo AG with a carrying value of zero.

**** In May 2012 the Group acquired an additional 18.48% interest in OAO Gazprom neftekhim Salavat. As a result the Group's share in OAO Gazprom neftekhim Salavat increased to 87.51% and the Group obtained control over OAO Gazprom neftekhim Salavat. During the period from September 2012 to December 2012 as a result of series of transactions, the Group acquired an additional 10.33% interest in the ordinary shares of OAO Gazprom neftekhim Salavat for cash consideration of RR 10,318 increasing its interest to 97.84%.

Group's share in profit of OAO Gazprom neftekhim Salavat as of 31 December 2012 includes gain on revaluation of previously held interest in the amount of RR 4,689 (see Note 33).

***** In December 2011 the Group acquired the remaining 50% interest in OAO Gazprom transgaz Belarus. As a result the Group obtained control over OAO Gazprom transgaz Belarus (see Note 34).

(In millions of Russian Roubles)

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

	Year ended 31 December	
	2012	**2011**
Balance at the beginning of the reporting period	**715,966**	**757,157**
Increase in share of OAO Gazprom neftekhim Salavat	–	19,008
Share of net income of associated undertakings and jointly controlled entities	161,500	99,049
Distributions from associated undertakings and jointly controlled entities	(145,936)	(53,849)
Acquisition of the controlling interest in OAO Gazprom transgaz Belarus (see Note 34)	–	(34,301)
Redemption of preference shares of Sakhalin Energy Investment Company Ltd.	(49,925)	(64,375)
Change in share of other comprehensive income (loss) of associated undertakings and jointly controlled entities	1,885	(19,302)
Translation differences	(5,662)	(2,667)
Acquisition of the controlling interest in OAO Gazprom neftekhim Salavat (see Note 33)	(43,650)	–
Other acquisitions and disposals	19,009	15,246
Balance at the end of the reporting period	**653,187**	**715,966**

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 2012				
Gazprombank Group*	2,841,040	2,477,578	150,115	31,329
Sakhalin Energy Investment Company Ltd.	599,341	420,350	294,525	144,025
OAO NGK Slavneft and its subsidiaries	621,518	319,262	198,682	24,679
Nord Stream AG	313,704	241,346	24,730	5,114
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	253,756	216,498	453,805	23,156
OOO Yamal razvitie and its subsidiaries	189,874	80,558	5,088	1,229
OAO Tomskneft VNK and its subsidiaries	111,127	63,380	109,497	14,156
Blue Stream Pipeline company B.V.	62,425	51,992	8,815	2,816
SGT EuRoPol GAZ S.A.	47,890	11,751	11,873	962
Shtokman Development AG	44,946	2,160	-	(596)
Wintershall AG	43,539	29,512	112,562	6,971
Salym Petroleum Development N.V.	37,461	11,864	76,719	17,781
AO Lietuvos dujos	34,137	10,145	21,685	875
AO Gazum	33,639	17,281	51,098	1,700
AO Latvijas Gaze	33,627	9,001	24,411	1,320
ZAO Nortgaz	30,044	27,833	8,831	1,458
TOO KazRosGaz	28,186	2,550	45,939	17,013
ZAO Achimgaz	18,626	6,744	5,721	3,293

* 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.

(In millions of Russian Roubles)

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

	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)
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	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 Gazprom transgaz Belarus **	-	-	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 Gazprom transgaz Belarus for the year ended 31 December 2011 are disclosed until the date of acquisition of controlling share (see Note 34).

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 2012	2011
AO Latvijas Gaze	4,806	4,594
AO Lietuvos dujos	3,924	4,380
OAO Gazprom neftekhim Salavat	-	60,702

Principal associated undertakings and jointly controlled entities

Entities	Country	Nature of operations	% of ordinary shares held as of 31 December* 2012	2011
ZAO Achimgaz	Russia	Exploration and production of gas and gas condensate	50	50
Bosphorus Gaz Corporation A.S.**	Turkey	Gas distribution	71	51
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	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	38	46
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* 2012	2011
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
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	75	51
OOO Yamal razvitie******	Russia	Investment activities, assets management	50	50

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

** In April 2012 Group acquired an additional 20% interest in Bosphorus Gaz Corporation A.S. As a result Group's share in Bosphorus Gaz Corporation A.S. increased to 71%. Investment in Bosphorus Gaz Corporation A.S.continues to be accounted under the equity method of accounting, as the Group did not obtain control due to its corporate governance structure.

*** In February 2012 OAO Gazprom purchased 375,000 out of 4,534,500 ordinary shares of OAO Gazprombank placed in the course of additional share issue, registered by the Central Bank of the Russian Federation in December 2011. The rest of the shares issued were purchased by other bank's shareholders, and GK Vnesheconombank. As a result of this transaction, the effective Group's share in OAO Gazprombank as of 31 December 2012 decreased from 46% to 38%.

**** In May 2012 the Group acquired an additional 18.48% interest in OAO Gazprom neftekhim Salavat. As a result the Group's share in OAO Gazprom neftekhim Salavat increased to 87.51% and the Group obtained control over OAO Gazprom neftekhim Salavat. During the period from September 2012 to December 2012 as a result of series of transactions, the Group acquired an additional 10.33% interest in the ordinary shares of OAO Gazprom neftekhim Salavat for cash consideration of RR 10,318 increasing its interest to 97.84% (see Note 33).

***** In July 2012 Statoil ASA signed an agreement to transfer its 24% interest in Shtokman Development AG to OAO Gazprom in accordance to the agreements between the shareholders of Shtokman Development AG. As a result the Group's share in Shtokman Development AG increased up to 75%. Investment in Shtokman Development AG continues to be accounted under the equity method of accounting, as the Group did not obtain control due to its corporate governance structure.

****** OOO Yamal razvitie is a holder of 51% share in OOO SeverEnergiya.

14 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2012	2011
Long-term accounts receivable and prepayments (net of impairment provision of RR 12,797 and RR 17,893 as of 31 December 2012 and 2011, respectively)	187,758	186,414
Advances for assets under construction (net of impairment provision of RR 359 and RR 327 as of 31 December 2012 and 2011, respectively)	303,260	330,683
	491,018	**517,097**

As of 31 December 2012 and 2011, long-term accounts receivable and prepayments with carrying value RR 187,758 and RR 186,414 have an estimated fair value RR 177,877 and RR 171,188 respectively.

	31 December 2012	2011
Long-term accounts receivable neither past due, nor impaired	149,404	148,460
Long-term accounts receivable impaired and provided for	51,039	55,797
Impairment provision at the end of the year	(12,797)	(17,893)
Long-term accounts receivable past due but not impaired	112	50
Total long-term accounts receivable and prepayments	**187,758**	**186,414**

(In millions of Russian Roubles)

14 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

	31 December 2012 г.	31 December 2011 г.
Long-term loans	68,578	67,771
Long-term trade receivables	4,677	6,205
Other long-term receivables*	76,149	74,484
Total long-term accounts receivable neither past due, nor impaired	**149,404**	**148,460**

*Long-term accounts receivable and prepayments include prepayments in amount of RR 5,365 and RR 2,168 as of 31 December 2012 and 2011 respectively.

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 2012	Year ended 31 December 2011
Impairment provision at the beginning of the year	17,893	22,139
Impairment provision accrued*	24	307
Release of previously created provision*	(5,120)	(4,553)
Impairment provision at the end of the year	**12,797**	**17,893**

* The accrual and release of provision for impaired receivables have been included in reversal of impairment (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 2012				31 December 2011			
	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*	135,160	23,612	1,275	**160,047**	155,291	23,455	1,044	**179,790**
Debt instruments	54	1,600	-	**1,654**	-	1,348	-	**1,348**
	135,214	**25,212**	**1,275**	**161,701**	**155,291**	**24,803**	**1,044**	**181,138**

* As of 31 December 2012 and 31 December 2011 equity securities include OAO NOVATEK shares in the amount of RR 110,370 and RR 122,270, respectively.

Debt instruments include mainly governmental 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 2012	Year ended 31 December 2011
Balance at the beginning of the year	181,138	191,417
Decrease in fair value of long-term available-for-sale financial assets	(19,192)	(10,534)
Purchased long-term available-for-sale financial assets	1,305	1,705
Disposal of long-term available-for-sale financial assets	(1,056)	(2,049)
(Charge) impairment release of long-term available-for-sale financial assets	(494)	599
Balance at the end of the year	**161,701**	**181,138**

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 89,128 and RR 84,950 as of 31 December 2012 and 2011, respectively.

Other non-current assets include net pension assets in the amount of RR 214,839 and RR 248,001 as of 31 December 2012 and 2011 respectively (see Note 23).

Other non-current assets include goodwill on subsidiaries in the amount of RR 146,587 and RR 102,800 as of 31 December 2012 and 2011 respectively. Movements of the Group's goodwill on subsidiaries are as follows:

Movements in goodwill on subsidiaries	Year ended 31 December 2012	Year ended 31 December 2011
Balance at the beginning of the year	**102,800**	**58,416**
Additions	44,128	44,742
Disposals	(341)	(358)
Balance at the end of the year	**146,587**	**102,800**

Additions to goodwill on subsidiaries for the year ended 31 December 2012 primarily comprise provisional goodwill attributable to OAO Gazprom neftekhim Salavat (see Note 33).

Additions to goodwill on subsidiaries for the year ended 31 December 2011 primarily comprise goodwill attributable to OAO Gazprom transgaz Belarus (see Note 34).

Goodwill acquired through business combinations has been allocated to the related cash generating units, groups of cash generating units or segments within the following operations:

	31 December 2012	31 December 2011
Gas production, transportation and distribution	70,567	69,977
Refining	43,469	-
Production of crude oil and gas condensate	25,952	26,224
Electric and heat energy generation and sales	6,599	6,599
Total goodwill on subsidiaries	**146,587**	**102,800**

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. Value in use is calculated as the present values of projected future cash flows discounted by the rates reflecting the time value of money as at 31 December 2012 and the risks specific to the particular cash generated units, for which the future cash flow estimates have not been adjusted. The Group applied discount rates ranging from 11 to 14%.

The estimates of future cash flows are based on the Group's managerial information, including management's forecast of commodity prices and expected production volumes, and available market information, and cover periods commensurate with the expected lives of the respective assets. The Group applied either steady or declining growth rates to cash flows beyond the explicit period of the forecast for related cash generating units.

17 ACCOUNTS PAYABLE AND ACCRUED CHARGES

	31 December 2012	31 December 2011
Financial liabilities		
Trade payables	274,387	275,251
Accounts payable for acquisition of property, plant and equipment	343,730	257,850
Other payables*	287,638	160,731
	905,755	693,832
Non-financial liabilities		
Advances received	132,435	109,491
Accruals and deferred income	2,084	1,321
	134,519	110,812
	1,040,274	**804,644**

*As of 31 December 2012 other payables include RR 115,255 of accruals for probable price adjustments related to natural gas deliveries made from 2010 to 2012.

Trade payables of RR 108,927 and RR 56,687 were denominated in foreign currency, mainly the US dollar and Euro, as of 31 December 2012 and 2011, respectively. Book values of accounts payable approximate their fair value.

(In millions of Russian Roubles)

18 OTHER TAXES PAYABLE

	31 December 2012	31 December 2011
VAT	49,540	44,734
Natural resources production tax	36,522	24,545
Property tax	11,656	11,448
Excise tax	8,460	5,698
Other taxes	9,095	7,282
	115,273	**93,707**

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

	31 December 2012	31 December 2011
Short-term borrowings and promissory notes:		
RR denominated borrowings and promissory notes	27,966	28,516
Foreign currency denominated borrowings	42,896	36,410
	70,862	64,926
Current portion of long-term borrowings (see Note 20)	255,945	301,942
	326,807	**366,868**

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

	31 December 2012	31 December 2011
Fixed rate RR denominated short-term borrowings	7.36%	5.63%
Fixed rate foreign currency denominated short-term borrowings	2.95%	4.44%
Variable rate foreign currency denominated short-term borrowings	1.94%	6.25%

Fair values approximate the carrying value of these liabilities.

20 LONG-TERM BORROWINGS

	Currency	Final Maturity	31 December 2012	31 December 2011
Long-term borrowings and promissory notes payable to:				
Loan participation notes issued in April 2009[1]	US dollar	2019	69,533	73,707
Loan participation notes issued in July 2012 [1]	Euro	2017	57,250	-
The Royal Bank of Scotland AG	US dollar	2013	54,858	58,151
Loan participation notes issued in October 2007[1]	Euro	2018	51,088	52,919

(In millions of Russian Roubles)

20 LONG-TERM BORROWINGS (continued)

		Final	31 December	
	Currency	**Maturity**	**2012**	**2011**
Loan participation notes issued in June 2007[1]	US dollar	2013	48,795	51,725
Loan participation notes issued in September 2012 [6]	US dollar	2022	46,118	-
Loan participation notes issued in May 2005[1]	Euro	2015	41,607	43,100
Loan participation notes issued in November 2006[1]	US dollar	2016	41,279	43,757
Loan participation notes issued in March 2007[1]	US dollar	2022	40,298	42,718
White Nights Finance B.V.	US dollar	2014	39,609	41,986
Loan participation notes issued in July 2009[1]	US dollar	2014	39,251	41,608
Loan participation notes issued in August 2007[1]	US dollar	2037	39,003	41,345
Loan participation notes issued in April 2004[1]	US dollar	2034	36,997	39,218
Loan participation notes issued in July 2009[1]	Euro	2015	36,715	38,031
Natixis SA[2]	US dollar	2015	36,232	48,300
Loan participation notes issued in April 2008[1]	US dollar	2018	34,015	36,057
Loan participation notes issued in October 2006[1]	Euro	2014	32,719	33,892
Loan participation notes issued in July 2012 [1]	US dollar	2022	31,049	-
Loan participation notes issued in November 2011[1]	US dollar	2016	30,531	32,364
Loan participation notes issued in November 2010[1]	US dollar	2015	30,510	32,342
Loan participation notes issued in June 2007[1]	Euro	2014	28,417	29,435
ZAO Mizuho Corporate Bank (Moscow)	US dollar	2016	26,563	28,011
Bank of Tokyo-Mitsubishi UFJ Ltd.[2]	US dollar	2016	22,887	25,780
Loan participation notes issued in November 2006[1]	Euro	2017	20,921	21,669
Russian bonds issued in April 2010[6]	Rouble	2013	20,326	20,670
Loan participation notes issued in March 2007[1]	Euro	2017	20,294	21,022
Loan participation notes issued in November 2011[1]	US dollar	2021	18,704	19,440
BNP Paribas SA[2]	Euro	2022	16,451	15,935
Loan participation notes issued in July 2008[1]	US dollar	2013	15,617	16,555
The Royal Bank of Scotland AG[2]	US dollar	2015	15,483	-
GK Vnesheconombank	Rouble	2025	14,808	11,779
UniCredit Bank AG[2,9]	US dollar	2018	13,683	17,983
UniCredit Bank AG[2,9]	Euro	2018	13,067	16,797
Structured export notes issued in July 2004[3]	US dollar	2020	12,509	18,838
Deutsche Bank AG	US dollar	2016	12,387	-
Loan participation notes issued in April 2008[1]	US dollar	2013	12,347	13,089
Russian bonds issued in February 2011[6]	Rouble	2021	10,356	10,127
Russian bonds issued in February 2011[6]	Rouble	2016	10,340	10,121
Russian bonds issued in February 2011[6]	Rouble	2021	10,340	10,121
Russian bonds issued in February 2012[6]	Rouble	2022	10,330	-
Russian bonds issued in April 2009[6]	Rouble	2019	10,171	10,368
Russian bonds issued in December 2012	Rouble	2022	10,063	-
OAO Gazprombank	Rouble	2018	10,000	10,000
OAO Gazprombank	Rouble	2017	10,000	-
Sumitomo Mitsui Finance Dublin Limited	US dollar	2016	9,749	10,337
Credit Agricole CIB	Euro	2015	9,673	-
Deutsche Bank AG	US dollar	2014	9,186	9,737

(In millions of Russian Roubles)

20 LONG-TERM BORROWINGS (continued)

	Currency	Final Maturity	31 December 2012	31 December 2011
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2015	9,171	9,719
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2016	9,122	9,672
Eurofert Trading Limited llc[4]	Rouble	2015	8,600	8,600
Citibank International plc[2]	US dollar	2021	8,563	10,262
Credit Agricole CIB[2]	US dollar	2013	7,607	8,064
Bank of America Securities Limited	Euro	2017	7,285	-
OAO TransKreditBank	Rouble	2014	7,055	4,535
BNP Paribas SA[2]	Euro	2023	6,497	2,530
Deutsche Bank AG	US dollar	2014	6,093	6,460
Banc of America Securities Limited	US dollar	2016	5,471	5,800
Russian bonds issued in February 2007	Rouble	2014	5,137	5,135
Russian bonds issued in December 2009[5]	Rouble	2014	5,037	5,041
Russian bonds issued in June 2009	Rouble	2014	5,011	5,008
Eurofert Trading Limited llc[4]	Rouble	2015	5,000	5,000
Deutsche Bank AG	US dollar	2014	4,353	6,923
UniCredit Bank AG[2,9]	Rouble	2018	4,134	5,127
OAO VTB Bank	Rouble	2014	4,010	-
WestLB AG[2]	US dollar	2013	3,214	10,224
Russian bonds issued in July 2009[7]	Rouble	2014	2,894	2,894
The Royal Bank of Scotland AG[2]	US dollar	2013	1,838	4,546
Russian bonds issued in March 2006[5]	Rouble	2016	446	4,911
Russian bonds issued in July 2009[6]	Rouble	2016	141	8,230
Loan participation notes issued in December 2005[1]	Euro	2012	-	41,788
Credit Suisse International	US dollar	2012	-	16,886
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2012	-	16,122
Russian bonds issued in November 2011[8]	Rouble	2012	-	14,878
J.P. Morgan Chase bank	US dollar	2012	-	13,576
OAO VTB Bank	US dollar	2012	-	13,012
RosUkrEnergo AG	US dollar	2012	-	10,778
Russian bonds issued in June 2009	Rouble	2012	-	10,014
Loan participation notes issued in November 2007[1]	JPY	2012	-	8,470
OAO Sberbank Rossii	US dollar	2012	-	7,535
The Royal Bank of Scotland AG[2]	US dollar	2012	-	3,795
Other long-term borrowings and promissory notes	Various	Various	85,071	90,667
Total long-term borrowings and promissory notes			**1,433,879**	**1,475,236**
Less: current portion of long-term borrowings			(255,945)	(301,942)
			1,177,934	**1,173,294**

[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 OAO WGC-6 was merged with OAO WGC-2.
[5] Issuer of these bonds is OAO Mosenergo.
[6] Issuer of these bonds is Gazprom neft Capital S.A.
[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.

(In millions of Russian Roubles)

20 LONG-TERM BORROWINGS (continued)

	31 December 2012	31 December 2011
RR denominated borrowings (including current portion of RR 40,958 and RR 58,490 as of 31 December 2012 and 2011, respectively)	207,994	203,742
Foreign currency denominated borrowings (including current portion of and RR 214,987 and RR 243,452 as of 31 December 2012 and 2011, respectively)	1,225,885	1,271,494
	1,433,879	**1,475,236**

Due for repayment:	31 December 2012	31 December 2011
Between one and two years	278,726	264,547
Between two and five years	502,440	586,574
After five years	396,768	322,173
	1,177,934	**1,173,294**

Long-term borrowings include fixed rate loans with a carrying value of RR 1,164,841 and RR 1,191,984 and fair value of RR 1,275,306 and RR 1,228,357 as of 31 December 2012 and 2011 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 2012 and 2011 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 2012	31 December 2011
Fixed rate RR denominated long-term borrowings	8.62%	8.75%
Fixed rate foreign currency denominated long-term borrowings	6.79%	7.09%
Variable rate foreign currency denominated long-term borrowings	3.02%	2.91%

As of 31 December 2012 and 31 December 2011 long-term borrowings of RR 12,509 and RR 18,838, respectively, inclusive of current portion of long-term borrowings, are secured by revenues from export supplies of gas to Western Europe.

As of 31 December 2012 and 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 25,656 were pledged to ING Bank N.V. (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.

Under the terms of loan participation notes with the nominal value of RR 36,447 as of 31 December 2012 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, including accrued interest.

Under the terms of the Russian bonds with the nominal value of RR 10,000 issued by OAO Gazprom neft in December 2012 due in 2022 bondholders can execute the right of early redemption in December 2017 at par, including accrued interest.

Under the terms of the Russian bonds with the nominal value of RR 10,000 issued by OAO Gazprom neft in February 2012 due in 2022 bondholders can execute the right of early redemption in February 2015 at par, including accrued interest.

Under the terms of 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, including accrued interest.

Under the terms of 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, including accrued interest.

Under the terms of 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, including accrued interest.

(In millions of Russian Roubles)

20 LONG-TERM BORROWINGS (continued)

Under the terms of 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, including accrued interest.

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 2012	2011
	Profit before profit tax	1,511,955	1,679,936
	Theoretical tax charge calculated at applicable tax rates	(302,391)	(335,987)
	Tax effect of items which are not deductible or assessable for taxation purposes:		
	Non-deductible expenses	(46,922)	(41,119)
13	Non-taxable profits of associated undertakings and jointly controlled entities	32,300	19,810
	Other non-taxable income	15,624	19,802
	Profit tax expense	**(301,389)**	**(337,494)**

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 in the applicable statutory rates, including the prevailing rate of 20% in the Russian Federation.

	Tax effects of taxable and deductible temporary differences:						**Total net deferred tax liabilities**
	Property, plant and equipment	Financial assets	Inventories	Tax losses carry forward	Effect of gas price adjustment	Other deductible temporary differences	
31 December 2010	**(316,567)**	**(18,222)**	**(2,571)**	**818**	**-**	**3,399**	**(333,143)**
Differences recognition and reversals recognised in profit or loss	(59,405)	768	(2,197)	78	-	2,478	(58,278)
Differences recognition and reversals recognised in other comprehensive income	-	2,780			-		2,780
Acquisition and disposal of subsidiaries	(14,087)	-	-	-	-	-	(14,087)
31 December 2011	**(390,059)**	**(14,674)**	**(4,768)**	**896**	**-**	**5,877**	**(402,728)**
Differences recognition and reversals recognised in profit or loss	(56,447)	3,518	4,911	(688)	23,051	311	(25,344)
Differences recognition and reversals recognised in other comprehensive income	-	1,163	-	-	-	2,097	3,260
Acquisition and disposal of subsidiaries	(4,493)	-	-	-	-	-	(4,493)
31 December 2012	**(450,999)**	**(9,993)**	**143**	**208**	**23,051**	**8,285**	**(429,305)**

Taxable temporary differences recognized in the year ended 31 December 2012 and 2011 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 2012 and 2011 was RR 8,097 and RR 30,779 respectively.

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 728,421 and RR 673,450 as of 31 December 2012 and 2011 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.

(In millions of Russian Roubles)

21 PROFIT TAX (continued)

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.

Effective 1 January 2012 55 major Russian subsidiaries of Gazprom formed a consolidated group of taxpayers (CGT) with OAO Gazprom acting as the responsible tax payer. In accordance with the Russian tax legislation, tax deductible losses (current tax assets) can be offset against taxable profits (current tax liabilities) among the companies within the CGT to the extent those losses and profits are recognized for tax purposes in 2012 and thus are included into the tax base of the CGT. Tax assets recognized on losses prior to the formation of the CGT are written off. As of 31 December 2012 and 2011 tax effect in the amount of RR 36,550 and RR 32,588 respectively, resulted from the non-deductible losses. These losses mainly result from the activities of the Group's service facilities and trust management operations.

22 DERIVATIVE FINANCIAL INSTRUMENTS

As of 31 December 2012 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.

Where appropriate, in order to manage currency risk the Group uses among others foreign currency derivatives.

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**	
	2012	**2011**
Assets		
Commodity contracts	25,098	61,532
Foreign currency derivatives	1,736	2,979
Other derivatives	106	26
	26,940	**64,537**
Liabilities		
Commodity contracts	30,509	58,200
Foreign currency derivatives	1,459	9,134
Other derivatives	-	48
	31,968	**67,382**

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

	31 December 2012				**31 December 2011**			
	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	909	25,217	814	**26,940**	3,249	60,505	783	**64,537**
Derivative financial instruments, liabilities	1,011	30,110	847	**31,968**	2,335	64,315	732	**67,382**

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 and from six to twelve months.

(In millions of Russian Roubles)

23 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2012	31 December 2011
Provision for decommissioning and site restoration costs	121,930	102,017
Provision for pension obligations	111,052	95,678
Other	10,524	9,039
	243,506	**206,734**

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 2012	31 December 2011
Discount rate (nominal)	7.0%	8.0%
Future salary and pension increases (nominal)	6.0%	6.0%
Turnover ratio p.a.	Age-related curve	4.0%
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 2012 and 2011.

The Group expected a 11.3% return on the plan assets as of 31 December 2012 and 10.3% return as of 31 December 2011.

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

	31 December 2012		31 December 2011	
	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	(323,133)	(198,256)	(228,121)	(148,805)
Fair value of plan assets	407,512	-	447,183	-
	84,379	**(198,256)**	**219,062**	**(148,805)**
Unrecognised net actuarial losses	130,460	43,987	136,585	6,003
Unrecognised past service costs	-	43,217	-	47,124
Unrecognised plan assets above the limit	-	-	(107,646)	-
Net balance asset (liability)	**214,839**	**(111,052)**	**248,001**	**(95,678)**

The net pension assets of RR 214,839 related to benefits provided by the pension plan NPF Gazfund as of 31 December 2012 are included within other non-current assets.

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

	Year ended 31 December 2012	Year ended 31 December 2011
Current service cost	22,661	14,761
Interest on obligation	30,562	27,549
Expected return on plan assets	(46,066)	(43,812)
Net actuarial losses (gains) recognized for the year	164,449	39,425
Past service cost	3,734	3,797
Effect of asset restriction	(107,646)	(6,249)
Total expenses included in staff costs	**67,694**	**35,471**

The total amount of benefits paid for 2012 and 2011 were equal to RR 20,038 and RR 16,726 respectively.

(In millions of Russian Roubles)

23 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

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

	31 December 2012		31 December 2011	
	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	**228,121**	**148,803**	**213,128**	**136,821**
Service cost	12,963	9,699	7,982	6,779
Interest cost	18,258	12,304	16,624	10,925
Actuarial losses (gains)	71,816	38,232	(2,890)	4,490
Past service cost	-	(172)	-	(207)
Benefits paid	(8,025)	(12,013)	(6,723)	(10,003)
Other movements	-	1,403	-	-
Defined benefit obligation at the end of the reporting year	**323,133**	**198,256**	**228,121**	**148,805**

Changes in the plan assets are as follows:

	31 December 2012		31 December 2011	
	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	**447,183**	**-**	**438,115**	**-**
Expected return	46,066	-	43,812	-
Actuarial losses	(86,261)	-	(35,572)	-
Contributions by employer	8,549	12,013	7,551	10,003
Benefits paid	(8,025)	(12,013)	(6,723)	(10,003)
Fair value of plan assets at the end of the reporting year	**407,512**	**-**	**447,183**	**-**

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

	31 December 2012	31 December 2011
Non – quoted equities	53%	47%
Mutual funds	22%	13%
Quoted equities	12%	21%
Deposits	6%	10%
Bonds	6%	6%
Other assets	1%	3%
	100%	**100%**

The amount of ordinary shares of OAO Gazprom included in the fair value of plan assets comprise RR 15,860 and RR 60,721 as of 31 December 2012 and 2011, respectively.

Non-quoted equities within plan assets are mostly represented by OAO Gazprombank shares which are measured at fair value (Level 2) using market approach valuation techniques based on available market data.

For the year ended 31 December 2012 actual return on plan assets was loss of RR 40,195 primarily caused by the change of the fair value of plan assets.

(In millions of Russian Roubles)

23 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Funded status of the plan:

	31 December				
	2012	**2011**	**2010**	**2009**	**2008**
Defined benefit obligation	(323,133)	(228,121)	(213,128)	(214,342)	(182,590)
Plan assets	407,512	447,183	438,115	513,763	257,046
Surplus	**84,379**	**219,062**	**224,987**	**299,421**	**74,456**
Experience adjustments on plan liabilities	(19,562)	(23,799)	51,447	(36,185)	(124,592)
Experience adjustments on plan assets	(86,261)	(35,572)	(127,823)	230,184	(358,806)

24 EQUITY

Share capital

Share capital authorised, issued and paid in totals RR 325,194 as of 31 December 2012 and 2011 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Roubles.

Dividends

In 2012 OAO Gazprom accrued and paid dividends in the nominal amount of 8.97 Roubles per share for the year ended 31 December 2011. 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.

Treasury shares

As of 31 December 2012 and 2011, subsidiaries of OAO Gazprom held 724 million and 726 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 2012 and 2011. 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 28,137 and RR 58,608 as of 31 December 2012 and 2011, 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 16 and RR 351 have been transferred to governmental authorities during the years ended 31 December 2012 and 2011 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 2012 year, the statutory profit of the parent company was RR 556,340. 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 2012	2011
Gas sales gross of custom duties to customers in:		
Russian Federation	760,696	738,601
Former Soviet Union (excluding Russian Federation)	626,820	694,937
Europe and other countries	1,806,947	1,763,716
	3,194,463	3,197,254
Customs duties	(434,796)	(382,406)
Effect of retroactive gas price adjustments*	(102,749)	-
Sales of gas	2,656,918	2,814,848
Sales of refined products to customers in:		
Russian Federation	741,411	588,250
Former Soviet Union (excluding Russian Federation)	73,267	48,630
Europe and other countries	393,475	336,146
Total sales of refined products	1,208,153	973,026
Sales of crude oil and gas condensate to customers in:		
Russian Federation	40,473	41,442
Former Soviet Union (excluding Russian Federation)	30,186	36,345
Europe and other countries	204,648	157,645
Total sales of crude oil and gas condensate	275,307	235,432
Electric and heat energy sales:		
Russian Federation	326,737	333,204
Former Soviet Union (excluding Russian Federation)	5,586	3,469
Europe and other countries	11,186	7,878
Total electric and heat energy sales	343,509	344,551
Gas transportation sales:		
Russian Federation	123,327	111,082
Former Soviet Union (excluding Russian Federation)	2,059	1,913
Total gas transportation sales	125,386	112,995
Other revenues:		
Russian Federation	138,514	137,711
Former Soviet Union (excluding Russian Federation)	5,058	7,490
Europe and other countries	11,566	11,037
Total other revenues	155,138	156,238
Total sales	**4,764,411**	**4,637,090**

* Effect of retroactive gas price adjustments recorded for the year ended 31 December 2012 was RR 102,749. These adjustments relate to volumes of gas delivered in 2010 and 2011 for which a discount was agreed in 2012 or is in process of negotiations where it is probable that a discount will be provided. The price adjustments recorded for the year ended 31 December 2012 do not take into account the effect of future possible refunds in previously paid customs duties but the result for the year includes a deferred tax asset for the profit tax impact. Currently the Group is in ongoing negotiations related to price renegotiations with certain other customers. The effects of gas price adjustments, including corresponding impacts on profit tax, and ongoing negotiations are recorded when they become probable and a reliable estimate of the amounts can be made. The Group recognizes refunds of custom duties related to gas price adjustments when the refunds are virtually certain which is when amended customs declarations are accepted by customs authorities.

(In millions of Russian Roubles)

26 OPERATING EXPENSES

Note		Year ended 31 December 2012	2011
	Purchased oil and gas	910,560	828,551
37	Taxes other than on income	578,617	418,134
	Staff costs	447,954	374,731
	Depreciation	334,162	275,184
	Transit of gas, oil and refined products	319,963	280,770
	Repairs and maintenance	216,676	189,865
	Materials	183,792	104,349
	Cost of goods for resale, including refined products	129,812	125,520
	Electricity and heating expenses	74,572	70,356
	Transportation services	37,782	33,753
	Social expenses	31,736	18,811
	Rental expenses	23,237	26,787
	Insurance expenses	22,321	20,384
	Research and development expenses	19,766	29,489
	Heat transmission	19,647	26,465
	Processing services	14,228	10,935
	Exchange rate differences on operating items	13,752	(6,386)
	Losses (gain) from derivatives financial instruments in the operating activities	8,802	(4,613)
	Other	181,150	183,509
		3,568,529	**3,006,594**
	Changes in inventories of finished goods, work in progress and other effects	(87,265)	(64,413)
	Total operating expenses	**3,481,264**	**2,942,181**

Staff costs include RR 67,694 and RR 35,471 of expenses associated with pension obligations for the years ended 31 December 2012 and 2011, respectively (see Note 23).

Gas purchase expenses included within purchased oil and gas amounted to RR 556,182 and RR 578,006 for the years ended 31 December 2012 and 2011, respectively.

Taxes other than on income consist of:

	Year ended 31 December 2012	2011
Natural resources production tax	413,181	265,742
Excise tax	98,780	95,752
Property tax	54,149	46,699
Other taxes	12,507	9,941
	578,617	**418,134**

The amount recognized in the consolidated statement of comprehensive income related to impairment charges for (release of) impairment and other provisions are as follows:

	Year ended 31 December 2012	2011
Charge for provision for accounts receivable	47,238	42,351
(Release of) charge for provision for inventory obsolescence	(133)	692
Release of provision for investments	(379)	(1,674)
Release of provision for impairment of assets under construction, net	(49,934)	(512)
	(3,208)	**40,857**

(In millions of Russian Roubles)

27 FINANCE INCOME AND EXPENSES

	Year ended 31 December	
	2012	**2011**
Exchange gains	281,379	171,570
Interest income	26,492	18,918
Total finance income	**307,871**	**190,488**
Exchange losses	210,146	235,825
Interest expense	36,992	31,998
Total finance expenses	**247,138**	**267,823**

Total interest paid amounted to RR 93,591 and RR 87,457 for the years ended 31 December 2012 and 2011, respectively.

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

Notes		Year ended 31 December	
		2012	**2011**
	RAR net profit for the year per consolidated statutory accounts	**770,581**	**1,033,105**
	Effects of IFRS adjustments:		
	Reclassification of revaluation of available for sale financial assets	19,923	10,581
	Difference in share of net income of associated undertakings and jointly controlled entities	3,503	(1,921)
	Differences in depreciation	259,217	200,405
	Write-off of long term financial assets	-	(601)
	Reversal of goodwill amortization	54,645	45,429
	Loan interest capitalized	59,313	51,782
23	Impairment and other provisions, including provision for pension obligations and unused vacations	23,862	5,028
	Accounting for finance leases	14,880	12,314
	Write-off of research and development expenses capitalized for RAR purposes	(5,565)	(5,340)
	Fair value adjustment on commodity contracts	(8,802)	4,613
	Differences in losses on fixed assets disposal	(1,700)	3,155
	Other effects	20,709	(16,108)
	IFRS profit for the year	**1,210,566**	**1,342,442**

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 billion weighted average shares outstanding for the years ended 31 December 2012 and 2011, respectively.

There are no dilutive financial instruments outstanding.

(In millions of Russian Roubles)

30 NET CASH PROVIDED BY OPERATING ACTIVITIES

	Year ended 31 December 2012	Year ended 31 December 2011
Profit before profit tax	**1,511,955**	**1,679,936**
Adjustments to profit before profit tax		
Depreciation	334,162	275,184
Increase in provisions	64,486	76,328
Net unrealised foreign exchange (gain) loss	(71,233)	64,255
Interest expense	36,992	31,998
Losses on disposal of property, plant and equipment	14,125	7,712
Interest income	(26,492)	(18,918)
Gains on disposal of available-for-sale financial assets	(546)	(1,379)
Derivatives loss (gain)	8,802	(4,613)
Share of net income of associated undertakings and jointly controlled entities	(161,500)	(99,049)
Other non-cash adjustments	(10,517)	(9,908)
Total effect of adjustments	188,279	321,610
Increase in long-term assets	(2,253)	(5,344)
Decrease in long-term liabilities	(2,472)	(123)
	1,695,509	1,996,079
Changes in working capital		
Increase in accounts receivable and prepayments	(175,730)	(66,689)
Increase in inventories	(40,130)	(82,910)
Increase in other current assets	(47,144)	(5,894)
Increase (decrease) in accounts payable and accrued charges, excluding interest, dividends and capital construction	120,311	(13,762)
Settlements on taxes payable (other than profit tax)	168,777	150,975
Decrease (increase) in available-for-sale financial assets and financial assets held for trading	6,633	(14,017)
Total effect of working capital changes	32,717	(32,297)
Profit tax paid	(282,609)	(326,332)
Net cash provided by operating activities	**1,445,617**	**1,637,450**

Total taxes and other similar payments paid in cash for the years 2012 and 2011:

	Year ended 31 December 2012	Year ended 31 December 2011
Customs duties	684,179	675,806
Natural resources production tax	401,518	257,909
Profit tax	282,609	326,332
VAT	238,791	175,194
Excise	110,994	84,497
Insurance contributions to non-budget funds	63,518	53,688
Property tax	54,471	45,801
Personal income tax	42,671	37,605
Other	23,792	26,277
Total taxes paid	**1,902,543**	**1,683,109**

(In millions of Russian Roubles)

31 SUBSIDIARY UNDERTAKINGS

Principal subsidiaries

Subsidiary undertaking	Location	% of share capital as of 31 December* 2012	2011
OOO Aviapredpriyatie Gazprom avia	Russia	100	100
ZAO ArmRosgazprom	Armenia	80	80
Vemex s.r.o	Czech Republic	50	50
OAO Vostokgazprom	Russia	100	100
OAO Gazovie Magistraly Tumeny	Russia	100	100
Gazprom (Schweiz) AG	Switzerland	100	100
OOO Gazprom VNIIGAZ	Russia	100	100
OAO Gazprom gazoraspredelenie	Russia	100	100
OOO Gazprom geologorazvedka	Russia	100	100
OOO Gazprom georesurs (OOO Georesurs)	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 (OOO Gazprom invest Zapad)	Russia	100	100
OOO Gazprom invest Vostok	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
OAO Gazprom neftekhim Salavat **	Russia	98	-
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
OAO Gazprom transgas Belarus (OAO Beltransgaz)	Belorussia	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	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
OOO Gazprom transgas Tomsk	Russia	100	100

(In millions of Russian Roubles)

31 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Location	% of share capital as of 31 December* 2012	2011
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 ***	Russia	96	78
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
OOO Gazpromtrans	Russia	100	100
OAO Gazpromtrubinvest	Russia	100	100
OOO Gazflot	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	56
OOO NK Sibneft-Yugra ***	Russia	100	100
OOO Novourengoysky GCC	Russia	100	100
OAO WGC-2	Russia	58	58
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
OOO Sibirskie gazovyie seti	Russia	100	-
Sibir Energy Ltd. ***	United Kingdom	100	100
OOO Sibmetahim	Russia	100	100
OAO Spetsgazavtotrans	Russia	51	51
OAO TGC-1	Russia	52	52
OAO Teploset Sankt-Peterburga	Russia	75	75
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	88
ZAO Yamalgazinvest	Russia	100	100

* Cumulative share of Group companies in charter capital of investments.
** In May 2012 the Group acquired an additional 18.48% interest in OAO Gazprom neftekhim Salavat. As a result the Group's share in OAO Gazprom neftekhim Salavat increased to 87.51% and the Group obtained control over OAO Gazprom neftekhim Salavat. During the period from September 2012 to December 2012 as a result of series of transactions, the Group acquired an additional 10.33% interest in the ordinary shares of OAO Gazprom neftekhim Salavat for cash consideration of RR 10,318 increasing its interest to 97.84% (see Note 33).
*** Subsidiaries of OAO Gazprom neft.
**** Group's portion of voting shares.

(In millions of Russian Roubles)

32 NON-CONTROLLING INTEREST

Notes		Year ended 31 December 2012	2011
	Non-controlling interest at the beginning of the year	**297,420**	**286,610**
	Non-controlling interest share of net profit of subsidiary undertakings	27,941	35,424
	Acquisition of the additional interest in OAO Gazpromneft-MNPZ and its subsidiaries	(10,593)	(197)
36	Acquisition of the additional interest in Sibir Energy Ltd.	-	(23,022)
	Disposal of the interest in OAO Teploset Sankt-Peterburga	-	6,468
	Changes in the non-controlling interest as a result of other disposals and acquisitions	(276)	92
	Gains from cash flow hedges	89	-
	Dividends	(3,323)	(9,453)
	Translation differences	(1,895)	1,498
	Non-controlling interest at the end of the year	**309,363**	**297,420**

33 ACQUISITION OF THE CONTROLLING INTEREST IN OAO GAZPROM NEFTEKHIM SALAVAT

In December 2008 the Group acquired a 50% interest plus one ordinary share in OAO Gazprom neftekhim Salavat for cash consideration of RR 20,959. Since then the Group started to exercise significant influence and applied the equity method of accounting for its investment in OAO Gazprom neftekhim Salavat.

During the period from November 2011 to December 2011 as a result of series of transactions, the Group acquired an additional 19.03% interest in OAO Gazprom neftekhim Salavat for total cash consideration of RR 19,008. Despite having a 69.03% interest as of 31 December 2011, the Group still did not exercise control over OAO Gazprom neftekhim Salavat due to its corporate governance regulations.

In May 2012 the Group acquired additional 18.48% interest in OAO Gazprom neftekhim Salavat for cash consideration of RR 18,458 increasing its interest to 87.51% and, as a result, obtained control over OAO Gazprom neftekhim Salavat.

In accordance with IFRS 3 “Business Combinations”, the Group recognized the acquired assets and liabilities based upon their fair values. 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 cash for the 18.48% interest in OAO Gazprom neftekhim Salavat acquired in May 2012 in the amount of RR 18.4 billion and fair value of previously acquired 69.03% interest accounted for using the equity method in the amount of RR 43.7 billion.

As a result of the Group obtaining control over OAO Gazprom neftekhim Salavat, the Group’s previously held 69.03% interest was remeasured to fair value, resulting in a gain of RR 4.7 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	7,196	7,196
Accounts receivable and prepayments	15,600	15,600
VAT recoverable	2,489	2,489
Inventories	10,760	10,760
Other current assets	5,868	5,868
Current assets	**41,913**	**41,913**
Property, plant and equipment	48,160	48,160
Long-term accounts receivable and prepayments	14,969	14,969
Other non-current assets	877	877
Non-current assets	**64,006**	**64,006**
Total assets	**105,919**	**105,919**
Accounts payable and accrued charges	35,630	35,630
Short-term borrowings, promissory notes and current portion of long-term borrowings	24,612	24,612

(In millions of Russian Roubles)

33 ACQUISITION OF THE CONTROLLING INTEREST IN OAO GAZPROM NEFTEKHIM SALAVAT (continued)

	Book value	Provisional fair value
Current liabilities	**60,242**	**60,242**
Long-term borrowings	20,696	20,696
Deferred tax liabilities	2,636	2,636
Provisions for liabilities and charges	961	961
Other non-current liabilities	85	85
Non-current liabilities	**24,378**	**24,378**
Total liabilities	**84,620**	**84,620**
Net assets at acquisition date	**21,299**	**21,299**
Non-controlling interest at acquisition date		2,660
Purchase consideration		62,108
Provisional goodwill		**43,469**

If the acquisition had occurred on 1 January 2012, the Group's sales for the year ended 31 December 2012 would have been RR 4,824,734. The Group's profit for the year ended 31 December 2012 would have been RR 1,216,754.

During the period from September 2012 to December 2012 as a result of series of transactions, the Group acquired an additional 10.33% interest in the ordinary shares of OAO Gazprom neftekhim Salavat for cash consideration of RR 10,318 increasing its interest to 97.84%. The difference between consideration paid and the non-controlling interest acquired has been recognized in equity in amount of RR 8,139 and is included within retained earnings and other reserves.

34 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. As of 31 December 2012 the Group finalized their assessment of the estimated fair values of assets and liabilities acquired in accordance with IFRS 3 "Business combination".

Purchase consideration includes RR 78.3 billion (USD 2,500 million) for the 50% share in OAO Beltransgaz acquired in December 2011 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	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	31,668	79,854
Other non-current assets	251	251
Non-current assets	**31,919**	**80,105**
Total assets	**80,914**	**129,100**

(In millions of Russian Roubles)

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

	Book value	Fair value
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
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**
Purchase consideration		112,605
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.

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.

In April 2013 OAO Beltransgaz was renamed into OAO Gazprom transgaz Belarus.

35 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%.

36 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.

37 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 2012 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. Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

(In millions of Russian Roubles)

37 RELATED PARTIES (continued)

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 2012 and 2011 respectively, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

	As of 31 December 2012		Year ended 31 December 2012	
	Assets	**Liabilities**	**Revenues**	**Expenses**
Transactions and balances with the Government				
Current profit tax	14,232	7,463	-	276,045
Insurance contributions to non-budget funds	578	4,235	-	64,079
VAT recoverable/payable	565,349	49,540	-	-
Customs duties	67,662	-	-	-
Other taxes	4,609	61,498	-	578,617
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	59,307	-
Electricity and heating sales	-	-	199,158	-
Other services sales	-	-	2,283	-
Accounts receivable	34,362	-		
Oil transportation expenses			-	95,548
Accounts payable	-	7,197	-	-
Loans	-	64,523	-	-
Interest expense			-	4,290
Short-term financial assets	1,738	-	-	-
Available-for-sale long-term financial assets	24,544	-	-	-

	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	-	-
Loans	-	54,735	-	-
Interest expense		-	-	3,163
Short-term financial assets	3,136	-	-	-
Available-for-sale long-term financial assets	32,128	-	-	-

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 millions of Russian Roubles)

37 RELATED PARTIES (continued)

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 2012 and 2011. See Note 12 for net book values as of December 2012 and 2011 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 2,130 and RR 1,795 for the years ended 31 December 2012 and 2011 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 2012 and 2011 and as of 31 December 2012 and 2011 the Group had the following significant transactions with associated undertakings and jointly controlled entities:

	Year ended 31 December	
	2012	**2011**
Gas sales	**Revenues**	
Wintershall Erdgas Handelshaus GmbH & Co. KG (WIEH)	97,321	94,921
W & G Beteiligungs-GmbH & Co. KG (WINGAS GmbH & Co. KG)* and its subsidiaries	79,420	71,870
ZAO Panrusgaz	51,102	55,683
AO Gazum	30,537	30,535
AO Overgaz Inc.	29,141	24,805
Wintershall Erdgas Handelshaus Zug AG (WIEE)**	26,015	27,283
AO Moldovagaz	25,745	21,875
AO Lietuvos dujos	12,289	12,356
ZAO Gazprom YRGM trading	11,887	9,113
PremiumGas S.p.A.	10,111	9,115
AO Latvijas Gaze	9,920	7,805
ZAO Gazprom YRGM Development	8,490	6,510
Russian-Serbian Trading Corporation a.d.	7,365	605
Bosphorus Gaz Corporation A.S.	3,854	4,035
SGT EuRoPol GAZ S.A.	2,973	2,011
OAO Gazprom transgaz Belarus ***	-	138,015
Promgaz S.p.A ****	-	13,333
GWH Gazhandel GmbH *****	-	4,900
Gas transportation sales		
ZAO Gazprom YRGM Trading	20,126	19,691
ZAO Gazprom YRGM Development	14,375	14,065
TOO KazRosGaz	2,042	1,912

(In millions of Russian Roubles)

37 RELATED PARTIES (continued)

	Year ended 31 December 2012	2011
Gas condensate, crude oil and refined products sales	**Revenues**	
OAO NGK Slavneft and its subsidiaries	34,057	41,946
OAO Gazprom neftekhim Salavat ******	10,036	19,698
OOO Gazpromneft – Aero Sheremetyevo	7,977	6,699
ZAO SOVEKS	5,025	2,750
Gas refining services sales		
TOO KazRosGaz	5,079	5,064
Purchased gas		
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	62,966	37,006
ZAO Gazprom YRGM trading	57,228	52,059
ZAO Gazprom YRGM Development	40,904	37,220
TOO KazRosGaz	39,930	25,073
Sakhalin Energy Investment Company Ltd.	4,604	4,750
ZAO Nortgaz	3,713	2,005
OOO SeverEnergiya	3,132	-
RosUkrEnergo AG	-	122,541
Purchased transit of gas		
Nord Stream AG	24,785	4,007
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	11,149	5,661
STG EuRoPol GAZ S.A.	10,341	10,365
Blue Stream Pipeline Company B.V.	5,622	7,274
OAO Gazprom transgaz Belarus***	-	13,526
Purchased crude oil and refined products		
OAO NGK Slavneft and its subsidiaries	88,228	69,695
OAO Tomskneft VNK and its subsidiaries	52,097	46,267
Salym Petroleum Development N.V.	38,179	32,540
Processing services purchases		
OAO NGK Slavneft and its subsidiaries	10,976	8,113

* In May 2012 WINGAS GmbH & Co. KG was renamed into W & G Beteiligungs-GmbH & Co. KG.
** 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 OAO Gazprom transgaz Belarus. As a result of this transaction OAO Gazprom transgaz Belarus became a subsidiary of the Group (see Note 34).
**** 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 May 2012 the Group acquired an additional 18.48% interest in OAO Gazprom neftekhim Salavat. As a result the Group's share in OAO Gazprom neftekhim Salavat increased to 87.51% and the Group obtained control over OAO Gazprom neftekhim Salavat (see Note 33).

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 2012		As of 31 December 2011	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	14,406	-	16,325	-
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	11,420	-	7,908	-
AO Overgaz Inc.	10,000	-	7,410	-
ZAO Panrusgaz	8,134	-	8,117	-
AO Gazum	3,892	-	4,077	-
Wintershall Erdgas Handelshaus Zug AG (WIEE)	2,451	-	1,485	-
AO Moldovagaz*	2,348	-	4,388	-

(In millions of Russian Roubles)

37 RELATED PARTIES (continued)

	As of 31 December 2012		As of 31 December 2011	
	Assets	**Liabilities**	**Assets**	**Liabilities**
AO Lietuvos dujos	2,212	-	2,319	-
ZAO Gazprom YRGM trading	1,829	-	1,458	-
OAO NGK Slavneft and its subsidiaries	1,701	-	3,361	-
ZAO Gazprom YRGM Development	1,307	-	1,042	-
OAO Gazprombank	1,083	-	615	-
TOO KazRosGaz	667	-	717	-
OAO Gazprom neftekhim Salavat	-	-	8,532	-
Short-term promissory notes				
OAO Gazprombank	179	-	372	-
Cash balances in associated undertakings				
OAO Gazprombank	169,295	-	251,350	-
Long-term accounts receivable and prepayments				
Blue Stream Pipeline Company B.V.	26,475		25,103	
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	15,487	-	15,952	-
Gas Project Development Central Asia AG	1,707	-	1,707	-
Bosphorus Gaz Corporation A.S.	1,501	-	870	-
Salym Petroleum Development N.V.	-	-	567	-
Long-term promissory notes				
OAO Gazprombank	599	-	646	-
Short-term accounts payable				
ZAO Gazprom YRGM trading	-	8,606	-	6,761
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries	-	7,906	-	2,956
SGT EuRoPol GAZ S.A.	-	6,565	-	6,997
ZAO Gazprom YRGM Development	-	5,704	-	4,388
Salym Petroleum Development N.V.	-	3,569	-	514
Nord Stream AG	-	2,892	-	1,999
TOO KazRosGaz	-	2,783	-	3,267
OAO NGK Slavneft and its subsidiaries	-	1,502	-	1,976
OAO Gazprombank	-	152	-	134
Other non-current liabilities				
ZAO Gazprom YRGM trading	-	1,593	-	2,390
ZAO Gazprom YRGM Development	-	248	-	372
Short-term loans from associated companies (including current portion of long-term liabilities)				
OAO Gazprombank	-	21,666	-	11,202
OAO Tomskneft VNK and its subsidiaries	-	5,105	-	6,647
RosUkrEnergo AG	-	2,248	-	10,778
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	-	1,281	-	1,095
Long-term loans from associated Undertaking				
OAO Gazprombank	-	24,569	-	16,229

* Net of impairment provision on accounts receivable in the amount of RR 115,573 and RR 92,643 as of 31 December 2012 and 2011 respectively.

Investments in associated undertakings and jointly controlled entities are disclosed in Note 13.

See Note 38 for financial guarantees issued by the Group on behalf of associated undertakings and jointly controlled entities.

(In millions of Russian Roubles)

38 COMMITMENTS AND CONTINGENCIES

Financial guarantees

	31 December 2012	31 December 2011
Outstanding guarantees issued on behalf of:		
Sakhalin Energy Investment Company Ltd.	94,145	103,220
Nord Stream AG	40,519	105,616
EM Interfinance Limited	5,385	5,869
Blackrock Capital Investments Limited	4,573	4,985
Blue Stream Pipeline Company B.V.	2,078	7,976
Devere Capital International Limited	-	1,958
OAO Group E4	-	1,498
Other	40,218	32,193
	186, 918	**263,315**

In 2012 and 2011 counterparties fulfilled their obligations. The maximum exposure to credit risk in relation to financial guarantees is RR 186,918 and RR 263,315 as of 31 December 2012 and 2011, respectively.

Included in financial guarantees are amounts denominated in USD of USD 3,832 million and USD 4,129 million as of 31 December 2012 and 2011, respectively, as well as amounts denominated in Euro of Euro 1,340 million and Euro 2,815 million as of 31 December 2012 and 2011, 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 2012 and 2011 the above guarantee amounted to RR 94,145 (USD 3,100 million) and RR 103,220 (USD 3,206 million), respectively.

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 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). Construction of Nord Stream gas pipeline Phase 1 was completed in the fourth quarter 2012. As a result as of 31 December 2012 the obligation under the credit facility for financing of Nord Stream gas pipeline Phase 1 construction completion was redeemed.

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 2012 and 31 December 2011 the above guarantee within the Group's share in Nord Stream AG obligations to the bank amounted to RR 40,519 (Euro 1,007 million) and RR 33,411 (Euro 802 million), respectively.

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. In December 2012 loans issued by Devere Capital International Limited were redeemed. As a result as of 31 December 2012 and 2011 the guarantees issued on behalf of Devere Capital International Limited, Blackrock Capital Investments Limited and EM Interfinance Limited amounted to RR 9,958 (USD 328 million) and 12,812 (USD 398 million), 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 2012 and 2011, outstanding amounts of these loans were RR 2,078 (USD 68 million) and RR 7,976 (USD 248 million), respectively, which were guaranteed by the Group, pursuant to its obligations.

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 the above guarantee amounted to RR 1,498 (Euro 36 million). As of 31 December 2012 this credit facility was repaid.

38 COMMITMENTS AND CONTINGENCIES (continued)

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 ongoing.

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. In November 2012 the Group and PGNiG SA reached an agreement on gas price and terms of gas supplies to Poland. The respective price adjustment was recognized in the financial statements of the Group when it became probable and reliable estimation of the amount was made.

In August 2012 the European Commission initiated an investigation into a potential breach of European Union antimonopoly law by the Group. The Group is analyzing the information related to the investigation and no provision has been recorded.

Other

The Group has transportation agreements with certain of its associated undertakings and jointly controlled entities (see Note 37). 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 2012 the Board of Directors approved a RR 705 billion investment programme for 2013. 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 2012 no loss is expected to result from these long-term commitments.

39 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 2012 is appropriate and all of the Group's tax, currency and customs positions will be sustainable.

Changes in the Russian Law “On Transfer pricing” are effective from 1 January 2012. The new legislation grants the right to a taxpayer to validate compliance with arm's length principle in respect of prices in controlled transactions through preparation of documentation for tax purposes.

39 OPERATING RISKS (continued)

The management of the Group believes that the Group sets market prices in its transactions and internal controls procedures are being introduced to comply with legislative requirements on transfer pricing.

Currently the new regulation practice has not been established yet, consequences of the trials with tax authorities cannot be estimated reliably however they can have a impact on financial results and activities of the Group.

Group changes

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

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be reliably estimated, but could be material. In the current enforcement climate under existing legislation, the Group management believes that there are no significant liabilities for environmental damage, other than amounts that have been accrued in the consolidated financial statements.

Social commitments

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

40 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.

(In millions of Russian Roubles)

40 FINANCIAL RISK FACTORS (continued)

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 2012					
	Financial assets					
	Current					
8	Cash and cash equivalents	281,526	73,767	48,067	16,176	419,536
9	Short-term financial assets (excluding equity securities)	3,541	-	-	6	3,547
10	Trade and other accounts Receivable	381,845	276,858	93,040	47,122	798,865
	Non-current					
14	Long-term accounts receivable	162,819	19,035	19	520	182,393
15	Available for sale long-term financial assets (excluding equity securities)	1,600	-	-	54	1,654
	Total financial assets	**831,331**	**369,660**	**141,126**	**63,878**	**1,405,995**
	Financial liabilities					
	Current					
17	Accounts payable and accrued Charges	675,725	166,400	30,308	33,322	905,755
19	Short-term borrowings, promissory notes and current portion of long-term borrowings	68,924	239,109	18,490	284	326,807
	Non-current					
20	Long-term borrowings	167,036	670,118	340,615	165	1,177,934
	Total financial liabilities	**911,686**	**1,075,626**	**389,413**	**33,771**	**2,410,496**

(In millions of Russian Roubles)

40 FINANCIAL RISK FACTORS (continued)

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**

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 2012, 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 70,597, 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 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 2012, if the Russian Rouble had weakened by 10% against the Euro with all other variables held constant, profit before profit tax would have been lower by RR 24,829 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 2011, if the Russian Rouble had weakened by 10% against the 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.

(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)

40 FINANCIAL RISK FACTORS (continued)

Long-term borrowings	**31 December**	
	2012	**2011**
At fixed rate	1,164,841	1,191,984
At variable rate	269, 038	283,252
Total	**1,433,879**	**1,475,236**

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 2012 and 2011, the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

As of 31 December 2012, if benchmark 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 5,380 for 2012 mainly as a result of higher interest expense on floating rate borrowings. As of 31 December 2011, if benchmark 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. The effect of a corresponding decrease in benchmark 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 2012, 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 189,622 for 2012. 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 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 2012, 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 46,418 lower.

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.

(In millions of Russian Roubles)

40 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	
	2012	**2011**
Cash and cash equivalents	419,536	501,344
Debt securities	5,201	21,997
Long-term and short-term trade and other accounts receivable	986,623	839,196
Financial guarantees	186,918	263,315
Total maximum exposure to credit risk	**1,598,278**	**1,625,852**

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 38).

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)

40 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 2012					
Short-term and long-term loans and borrowings and promissory notes	175,488	151,319	278,726	502,440	396,768
Trade and other payables	673,822	231,933	-	-	-
Financial guarantees	8,920	10,696	13,356	63,138	90,808
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

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.

Group considers target debt to equity ratio at the level of not more than 40%.

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) 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 2012 and 2011 were as follows:

	31 December 2012	31 December 2011
Total debt	1,504,741	1,540,162
Less: cash and cash equivalents and certain restricted cash	(423,194)	(505,221)
Net debt	1,081,547	1,034,941
Adjusted EBITDA	1,572,892	1,930,533
Net debt/Adjusted EBITDA ratio	**0.69**	**0.54**

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

41 POST BALANCE SHEET EVENTS

Borrowings and loans

In February 2013 the Group issued Loan Participation Notes in the amount of USD 800 million at an interest rate 3.85% due in 2020 and Loan Participation Notes in the amount of USD 900 million at an interest rate 4.95% due in 2028 under the USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In February 2013 the Group issued Russian bonds in the amount of RR 5,000 at an interest rate of 7.55% due in 2018, Russian bonds in the amount of RR 10,000 at an interest rate of 7.55% due in 2017 and Russian bonds in the amount of RR 15,000 at an interest rate of 7.5% due in 2016.

In March 2013 the Group issued Loan Participation Notes in the amount of EURO 1,000 million at an interest rate of 3.389% due in 2020 and Loan Participation Notes in the amount of EURO 500 million at an interest rate of 4.364% due in 2025 under the USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In April 2013 Group issued Loan Participation Notes in the amount of EURO 750 million at an interest rate of 2.933% due in 2018.

Investments

In April 2013 pursuant to the Russian Government's Directive of 13 November 2010 the Group signed a purchase and sale agreement with OAO Rosneftegaz for the acquisition of 72 gas distribution companies. The cash consideration paid amounted to RR 25,862.

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