**OAO GAZPROM**

**IFRS CONSOLIDATED FINANCIAL STATEMENTS**
**31 DECEMBER 2008**

PRICEWATERHOUSECOOPERS

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**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 2008 and the consolidated statement of income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw your attention to Notes 24 and 36 to the consolidated financial statements. The Government of the Russian Federation has a controlling interest in OAO Gazprom and Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
29 April 2009

**OAO GAZPROM**

**IFRS CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2008**

**(In millions of Russian Roubles)**

| Notes | | 31 December 2008 | 31 December 2007 |
|---|---|---|---|
| | **Assets** | | |
| | **Current assets** | | |
| 8 | Cash and cash equivalents | 343,833 | 279,109 |
| 8 | Restricted cash | 3,747 | 12,025 |
| 9 | Short-term financial assets | 23,448 | 113,911 |
| 10 | Accounts receivable and prepayments | 675,934 | 697,464 |
| 11 | Inventories | 276,954 | 245,406 |
| | VAT recoverable | 115,878 | 122,558 |
| | Other current assets | 132,281 | 95,944 |
| | | 1,572,075 | 1,566,417 |
| | **Non-current assets** | | |
| 12, 35 | Property, plant and equipment | 4,020,522 | 3,490,477 |
| 13, 35 | Investments in associated undertakings and jointly controlled entities | 772,143 | 670,403 |
| 14 | Long-term accounts receivable and prepayments | 343,805 | 402,382 |
| 15 | Available-for-sale long-term financial assets | 48,186 | 256,210 |
| 16 | Other non-current assets | 411,837 | 406,667 |
| | | 5,596,493 | 5,226,139 |
| | Total assets | 7,168,568 | 6,792,556 |
| | **Liabilities and equity** | | |
| | **Current liabilities** | | |
| 17 | Accounts payable and accrued charges | 466,757 | 485,466 |
| 21 | Current profit tax payable | 6,774 | 23,033 |
| 18 | Other taxes payable | 50,622 | 50,530 |
| 19 | Short-term borrowings and current portion of long-term borrowings | 432,640 | 504,070 |
| 19 | Short-term promissory notes payable | 8,052 | 21,455 |
| | | 964,845 | 1,084,554 |
| | **Non-current liabilities** | | |
| 20 | Long-term borrowings | 923,230 | 981,408 |
| 20 | Long-term promissory notes payable | 1,718 | 3,555 |
| 23 | Provisions for liabilities and charges | 85,807 | 79,213 |
| 21 | Deferred tax liabilities | 265,279 | 308,353 |
| | Other non-current liabilities | 14,590 | 22,376 |
| | | 1,290,624 | 1,394,905 |
| | Total liabilities | 2,255,469 | 2,479,459 |
| | **Equity** | | |
| 24 | Share capital | 325,194 | 325,194 |
| 24 | Treasury shares | (597) | (20,801) |
| 24 | Retained earnings and other reserves | 4,280,518 | 3,646,396 |
| | | 4,605,115 | 3,950,789 |
| 32 | Minority interest | 307,984 | 362,308 |
| | Total equity | 4,913,099 | 4,313,097 |
| | Total liabilities and equity | 7,168,568 | 6,792,556 |

A.B. Miller
Chairman of the Management Committee
29 April 2009

E.A. Vasilieva
Chief Accountant
29 April 2009

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

**OAO GAZPROM**
**IFRS CONSOLIDATED STATEMENT OF INCOME**
**FOR THE YEAR ENDED 31 DECEMBER 2008**
**(In millions of Russian Roubles)**

| Notes | | Year ended 31 December 2008 | 2007 |
|---|---|---|---|
| 25 | Sales | 3,518,960 | 2,423,245 |
| 26 | Operating expenses | (2,159,690) | (1,713,759) |
| 35 | Impairment provision and other provisions | (98,964) | (7,708) |
| | **Operating profit** | **1,260,306** | **701,778** |
| | Gain from sale of interest in subsidiary | - | 50,853 |
| | Gain (loss) from change in fair value of call option | (50,738) | 50,738 |
| | Deconsolidation of NPF Gazfund | - | 44,692 |
| 27 | Finance income | 165,603 | 159,380 |
| 27 | Finance expense | (341,179) | (132,573) |
| 13, 35 | Share of net income (loss) of associated undertakings and jointly controlled entities | (16,686) | 24,234 |
| | Gain on available-for-sale financial assets | 14,326 | 25,102 |
| | **Profit before profit tax** | **1,031,632** | **924,204** |
| | Current profit tax expense | (307,094) | (218,266) |
| | Deferred profit tax expense | 46,842 | (10,953) |
| 21 | Profit tax expense | (260,252) | (229,219) |
| | **Profit for the year** | **771,380** | **694,985** |
| | **Attributable to:** | | |
| | Equity holders of OAO Gazprom | 742,928 | 658,038 |
| 32 | Minority interest | 28,452 | 36,947 |
| | | 771,380 | 694,985 |
| 29 | **Basic and diluted earnings per share for profit attributable to the equity holders of OAO Gazprom (in Roubles)** | **31.49** | **28.07** |

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**OAO GAZPROM**
**IFRS CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR YEAR ENDED 31 DECEMBER 2008**
**(In millions of Russian Roubles)**

| Notes | | Number of shares outstanding (billions) | Attributable to equity holders of OAO Gazprom | | | | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | | Share capital | Treasury shares | Retained earnings and other reserves | Total | | |
| | **Balance as of 31 December 2006** | 22.9 | 325,194 | (41,801) | 2,905,065 | 3,188,458 | 161,362 | 3,349,820 |
| | Gains arising from change in fair value of available-for-sale financial assets | | - | - | 21,201 | 21,201 | - | 21,201 |
| 24 | Translation differences | | | | 4,829 | 4,829 | - | 4,829 |
| | Net gain recognised directly in equity | | - | - | 26,030 | 26,030 | - | 26,030 |
| | Profit for the year | | - | - | 658,038 | 658,038 | 36,947 | 694,985 |
| | Total recognised income for the year | | - | - | 684,068 | 684,068 | 36,947 | 721,015 |
| 24 | Net treasury shares transactions | 0.1 | - | 12,162 | 3,631 | 15,793 | - | 15,793 |
| 24 | Return of social assets to governmental authorities | | - | - | (3,897) | (3,897) | - | (3,897) |
| 24 | Dividends | | - | - | (59,765) | (59,765) | (9,320) | (69,085) |
| | Deconsolidation of NPF Gazfund | 0.6 | - | 8,838 | 111,015 | 119,853 | 90,844 | 210,697 |
| | Acquisition of the controlling interest in OAO Mosenergo | | - | - | 6,279 | 6,279 | 61,964 | 68,243 |
| | Disposal of shares in subsidiaries | | - | - | - | - | 20,511 | 20,511 |
| | **Balance as of 31 December 2007** | 23.6 | 325,194 | (20,801) | 3,646,396 | 3,950,789 | 362,308 | 4,313,097 |
| 15 | Losses arising from change in fair value of available-for-sale financial assets | | - | - | (58,105) | (58,105) | - | (58,105) |
| | Change in equity of associated undertakings and jointly controlled entities | | - | - | (4,972) | (4,972) | - | (4,972) |
| 24 | Translation differences | | - | - | 19,220 | 19,220 | 1,120 | 20,340 |
| | Net (loss) gain recognised directly in equity | | - | - | (43,857) | (43,857) | 1,120 | (42,737) |
| | Profit for the year | | - | - | 742,928 | 742,928 | 28,452 | 771,380 |
| | Total recognised income for the year | | - | - | 699,071 | 699,071 | 29,572 | 728,643 |
| 24 | Net treasury shares transactions | 0.0 | - | (6,547) | 184 | (6,363) | - | (6,363) |
| 24 | Return of social assets to governmental authorities | | - | - | (2,519) | (2,519) | - | (2,519) |
| 24 | Dividends | | - | - | (62,614) | (62,614) | (6,227) | (68,841) |
| 34 | Deconsolidation of Gazprombank Group | 0.0 | - | 26,751 | - | 26,751 | (148,035) | (121,284) |
| 33 | Acquisition of the controlling interest in OAO WGC-2 and OAO WGC-6 | | - | - | - | - | 61,632 | 61,632 |
| | Acquisition and disposals of shares in subsidiaries (including additional shares issue) | | - | - | - | - | 8,734 | 8,734 |
| | **Balance as of 31 December 2008** | 23.6 | 325,194 | (597) | 4,280,518 | 4,605,115 | 307,984 | 4,913,099 |

A.B. Miller
Chairman of the Management Committee
29 April 2009

E.A. Vasilieva
Chief Accountant
29 April 2009

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**OAO GAZPROM**
**IFRS CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 31 DECEMBER 2008**
**(In millions of Russian Roubles)**

| Notes | | Year ended 31 December 2008 | 2007 |
|---|---|---|---|
| | **Operating activities** | | |
| 30 | **Net cash provided by operating activities** | **1,016,551** | **598,508** |
| | **Investing activities** | | |
| 12 | Capital expenditures | (714,714) | (543,420) |
| | Net change in loans made | (38,084) | (11,289) |
| | Interest received | 41,314 | 70,154 |
| 12 | Interest paid and capitalised | (28,001) | (19,661) |
| | Acquisition of subsidiaries, net of cash acquired | 1,514 | (6,749) |
| 13 | Investment in associated undertakings and jointly controlled entities | (121,639) | (340,401) |
| | Decrease in cash due to NPF Gazfund deconsolidation | - | (18,518) |
| 34 | Decrease in cash due to Gazprombank Group deconsolidation | (47,242) | - |
| | Proceeds from sales of interest in subsidiary | 5,875 | 21,434 |
| | Proceeds from associated undertakings and jointly controlled entities | 33,159 | 10,487 |
| | Purchases of long-term available-for-sale financial assets | (20,649) | (64,929) |
| | Change in other long-term assets | (7,131) | 10,651 |
| | **Net cash used for investing activities** | **(895,598)** | **(892,241)** |
| | **Financing activities** | | |
| 20 | Proceeds from long-term borrowings (including current portion) | 217,248 | 658,802 |
| 20 | Repayment of long-term borrowings (including current portion) | (336,818) | (198,527) |
| | Net proceeds (repayment of) from issue of promissory notes | 1,417 | (96,030) |
| 19 | Net proceeds from short-term borrowings | 185,386 | 70,901 |
| 24 | Dividends paid | (68,013) | (69,329) |
| | Interest paid | (55,225) | (74,152) |
| 24 | Purchases of treasury shares | (113,763) | (659,223) |
| 24 | Sales of treasury shares | 107,400 | 676,933 |
| 8 | Change in restricted cash | (6,525) | 331 |
| | **Net cash (used for) provided by financing activities** | **(68,893)** | **309,706** |
| | Effect of exchange rate changes on cash and cash equivalents | 12,664 | (6,088) |
| | **Increase in cash and cash equivalents** | **64,724** | **9,885** |
| | Cash and cash equivalents, at the beginning of reporting year | 279,109 | 269,224 |
| | **Cash and cash equivalents, at the end of the year** | **343,833** | **279,109** |

A.B. Miller
Chairman of the Management Committee
29 April 2009

E.A. Vasilieva
Chief Accountant
29 April 2009

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

## 1 NATURE OF OPERATIONS

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

The Group is involved in the following principal activities:

- Exploration and production of gas;
- Transportation of gas;
- Domestic and export sale of gas;
- Production of crude oil and gas condensate; and
- Processing of oil, gas condensate and other hydrocarbons, and sales of refined products.

Other activities primarily comprise electric and heat energy generation and sales, storage of gas and construction.

The weighted average number of full time employees during 2008 and 2007 was 456 thousand and 445 thousand, respectively.

## 2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The Russian Federation continues to display certain characteristics of an emerging market, including relatively high inflation. Also as discussed in Note 35 and 38 the Russian economy has been impacted by the recent turmoil in the financial markets, economic downturn, drop in oil prices and Rouble devaluation. Management is unable to fully predict all developments which could have an impact on Russia and gas importing countries and the banking sector and consequently what effect, if any, they could have on financial position of the Group.

## 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").

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 (see Note 5).

## 4 SCOPE OF CONSOLIDATION

In July 2008, the Group obtained control over OAO WGC-2 and OAO WGC-6 with ownership interests amounting to 57.3% and 60.1%, respectively (see Note 33). In these financial statements, management revised the preliminary assessment disclosed in interim condensed financial information for the nine months, ended September 30, 2008. Revisions made to the preliminary assessment applied in interim financial information were reflected as of the acquisition date.

At the general shareholders meeting of OAO Gazprombank on 24 June 2008, the shareholders elected the new Board of Directors. Five out of twelve newly elected Board members are representatives of OAO Gazprom. As a result of the change in the Board composition effective 24 June 2008 the Group lost its ability to control the financial and operating policies of the bank and its subsidiaries, including OAO Sibur Holding and its subsidiaries and Gazprom-Media Group (the "Gazprombank Group") and ceased to consolidate OAO Gazprombank and its subsidiaries. As the Group has retained significant influence over Gazprombank Group, it is accounted under the equity method of accounting (see Note 34).

In the first quarter of 2007 the Group ceased to consolidate the non-governmental pension fund, NPF Gazfund.

# 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 less than 50% 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 minority interests.

The purchase 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, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

***Goodwill and minority interest***

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer’s share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date acquisition. Any excess of the fair value of the acquirer’s share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition over the cost of an acquisition is recognized in the statement of income. Goodwill is tested annually for impairment as well as when there are indications of impairment. For the purpose of impairment testing goodwill is allocated to the cash generating units that are expected to benefit from synergies from the combination.

When a business combination involves more than one transaction any adjustment to those fair values relating to previously held interests of the Group is recognised as a revaluation in equity. No such revaluation is made when the Group acquires an additional minority interest in subsidiaries.

Any premiums paid in excess of the carrying amount of the respective portion of minority interest at the date of acquisition of an additional interest in subsidiaries are recognized in goodwill.

Minority 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. In accordance with the provisions of 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 minority interest in the acquiree is stated at the minority’s proportion of the net fair value of those items.

***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 equity method involves recognising in the consolidated statement of income the Group’s share of the associated undertakings’ profit or loss for the year. 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.

## 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 are contractual agreements whereby two or more parties undertake economic activity, which is subject to joint control. 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 involving jointly controlled assets or joint operations are accounted for using the proportionate consolidation method.

### 5.2. 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. There were no financial assets designated at fair value through profit or loss at inception as of 31 December 2008 and 2007.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the consolidated statement of income in the period in which they arise.

*(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 fair value. 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 equity and shown net of income tax in the consolidated statement of changes in equity. When securities classified as available-for-sale are sold, the accumulated fair value adjustments are included in the consolidated statement of 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 in the consolidated statement of income.

*(c) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of 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.

## 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 equity and recognised in the consolidated statement of income. 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 equity. 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 carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of income within operating expenses.

### 5.3. Derivative financial instruments

As part of trading activities, primarily by the banking subsidiaries, 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 consolidated statement of income. The fair value of derivatives financial instruments is determined using actual market data information and valuation techniques based on prevailing market interest rate for similar instruments as appropriate. The Group has no derivatives accounted for as hedges.

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

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 in the consolidated income statement in the period in which they arise.

### 5.4. 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 in the consolidated statement of income.

### 5.5. Cash and cash equivalents and restricted cash

Cash comprises cash on hand and balances with banks. Cash equivalents comprise short-term investments 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.

### 5.6. Value added tax (VAT)

Output VAT related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated balance sheet on a gross basis and disclosed separately as a current asset and liability, except for VAT, presented within other non-current assets. VAT, presented within other non-current assets relates to assets under construction, which is expected to be recovered in more than 12 months after the balance sheet date. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

(In millions of Russian Roubles)

## 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 5.7. 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.

### 5.8. 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 in the consolidated statement of income as incurred.

Property, plant and equipment includes 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.

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.

Depletion of acquired production licenses is calculated using the units-of-production method for each field based upon proved reserves. Oil and gas reserves for this purpose are determined in accordance with the guidelines of the Society of Petroleum Engineers and the World Petroleum Congress, and were estimated by independent reservoir engineers.

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

| | Years |
|---|---|
| Pipelines | 33 |
| Wells | 20-40 |
| 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.

## 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 5.9. 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 of impairment exists at the balance sheet date. Goodwill acquired through business combinations is allocated to cash-generating unit (or groups of cash-generating units) that is expected to benefit from the synergies of the acquisition. In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit (including goodwill) is compared with the recoverable amount of the respective cash-generating unit (see Note 35).

The amount of the reduction of the carrying amount of the cash-generating unit to the recoverable value is recorded in the consolidated statement of 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.

### 5.10. 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.

### 5.11. Deferred tax

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

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

### 5.12. Foreign currency transactions

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 in the consolidated statement of 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 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 29.38 and 24.55 as of 31 December 2008 and 2007, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 41.44 and 35.93 as of 31 December 2008 and 2007, respectively.

## 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

### 5.13. 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.

### 5.14. 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. The gains (losses) arising from treasury share transactions are recognised as a movement 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.

***Dividends***

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

### 5.15. 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 are recognised for financial reporting purposes when products are delivered to customers and title passes and are stated net of VAT, excise taxes and other similar compulsory payments. Gas transportation sales are recognized when transportation services have been provided, as evidenced by delivery of gas in accordance with the contract.

Natural gas prices and gas transportation tariffs to the final consumers in the Russian Federation are established mainly by the Federal Tariffs Service. Export gas prices for sales to European countries are indexed to oil products prices, as stipulated in long-term contracts. Export gas prices for sales to Former Soviet Union countries are determined in accordance with formulas, similar to European countries and in some cases are fixed.

***Mutual cancellation and other non-cash transactions***

Certain accounts receivable arising from sales are settled either through non-cash transactions (mutual cancellations), or other non-cash settlements. The non-cash settlements are constantly decreasing. Non-cash settlements include promissory notes which are negotiable debt obligations. A portion of operations, including capital expenditures, is also transacted by mutual cancellations or other non-cash settlements.

Sales and purchases that are expected to be settled by mutual settlements, barter or other non-cash settlements are recognised based on fair value of consideration to be received or given up in non-cash settlements. The fair value is determined with reference to observable market information.

Non-cash transactions have been excluded from the consolidated cash flow statement. Investing and financing activities and the total of operating activities represent actual cash flows.

## 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Promissory notes***

Promissory notes issued by the Group are recorded initially at the fair value of the consideration received or the fair value of the note, which is determined using the prevailing market rate of interest for a similar instrument.

In subsequent periods, promissory notes are stated at amortised cost using the effective yield method. Any difference between the fair value of the consideration (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the promissory note.

### 5.16. Interest

Interest income and expense are recognised in the consolidated statement of 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.

### 5.17. 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.

### 5.18. 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 charged to staff expense within operating expenses in the consolidated statement of income so as to spread the regular cost 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 recognised over the average remaining service lives of employees, if gains and losses fall outside a "corridor" of plus or minus 10% of unrecognized gains or losses (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 consolidated statement of income so as to spread the regular cost over the service lives of employees.

***Social expenses***

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

### 5.19. Financial instruments

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

## 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Accounting for financial guarantee contracts***

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.

### 5.20. Recent accounting pronouncements

In 2008 the Group has adopted all IFRS, amendments and interpretations which are effective 1 January 2008 and which are relevant to its operations, except for IFRIC 14 "IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" which was adopted early by the Group in 2007.

(a) Standards or Interpretations effective in 2008

Effective 1 January 2008, the Group adopted IFRIC 12 "Service Concession Arrangements" ("IFRIC 12"), which is effective for annual periods beginning on or after 1 January 2008. Service concessions are arrangements whereby a government or other public sector entity grants contracts for the supply of public services – such as roads, airports and other facilities – to private sector operators. The interpretation addresses how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements. The application of IFRIC 12 did not materially affect the Group's consolidated financial statements.

Amendment to IAS 39 "Financial instruments: Recognition and measurement", which is effective from 1 July 2008. The amendment allows the reclassification of certain financial assets previously classified as "held for trading" or "available for sale" to another category under limited circumstances. Various disclosures are required where a reclassification has been made. Derivatives and assets designated as "at fair value through profit or loss" under the fair value option are not eligible for this reclassification. Reclassification cannot be applied retrospectively before 1 July 2008. The application of this interpretation did not 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. All standards adopted by the Group require retrospective application.

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

- IFRS 8 "Operating Segments" ("IFRS 8"), which is effective for annual periods beginning on or after 1 January 2009. The standard replaces IAS 14 "Segment reporting" ("IAS 14"). The standard requires an entity to adopt the "management approach" to reporting of performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. Such information may be different from what is used to prepare the statement of income and balance sheet. The IFRS therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognized in the statement of income and balance sheet. The Group is currently assessing the impact of the application of IFRS 8 on its consolidated financial statements.
- Amendment to IAS 23 "Borrowing costs" ("IAS 23"), which is effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 23 removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The application of these amendments is not expected to materially affect the Group's consolidated financial statements.

## 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- IFRIC 13 "Customer Loyalty Programmes" ("IFRIC 13"), which is effective for annual periods beginning on or after 1 July 2008. IFRIC 13 clarifies that where goods and services are sold with a customer loyalty incentive, the arrangement is a multi-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair value. The application of IFRIC 13 is not expected to materially affect the Group's consolidated financial statements.

- Amendment to IAS 1 "Presentation of Financial Statements" ("IAS 1"), which is effective for annual periods beginning on or after 1 January 2009. The main change in IAS 1 is the replacement of the statement of income by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group will apply the amendment from 1 January 2009.

- Amendment to IAS 32 and IAS 1 ("Puttable financial instruments and obligations arising on liquidation"), which is effective from 1 January 2009. The amendment requires classification of puttable financial instruments and instruments that impose an obligation to deliver a pro rata share of the net asset on liquidation as equity. Management does not expect the amendment to materially affect the Group's consolidated financial statements.

- Amendment to IAS 27 "Consolidated and Separate Financial Statements" ("IAS 27"), which is effective for annual periods beginning on or after 1 July 2009. The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if these results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control over a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group will prospectively apply the amendment from 1 January 2010.

- Amendment to IFRS 3 "Business Combinations" ("IFRS 3"), which is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. Measurement of the non-controlling interests at fair value will have corresponding effect on consolidated goodwill (goodwill attributable to non-controlling interest will be recognized). The revised IFRS 3 is more detailed in providing guidance on the application of the acquisition method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred, the amount recognised for the non-controlling interest and the fair value of the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group will apply the new provisions of this standard prospectively to any business combination on or after 1 January 2010.

- Amendment to IFRS 2 "Share-based Payment" ("Vesting Conditions and Cancellations"), which is effective for annual periods beginning on or after 1 January 2009. The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The application of the amended standard is not expected to materially affect the consolidated financial statements.

- Improvements to International Financial Reporting Standards (issued in April 2009). Amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the improvements have not yet been adopted by the EU. The improvements consist of a mixture of substantive changes and clarifications in the following standards and

**5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; amending disclosure requirements for a measure of segment assets under IFRS 8; amending IAS 1 regarding non-current/current classification of liabilities settled by equity instruments; clarifying in IAS 7 that only expenditures that result in a recognised asset are eligible for classification as investing activities; clarifying the considerations for classification land leases and setting transition requirements for reclassification of unexpired leases in IAS 17; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination, providing additional guidance on techniques used in the absence of active market; supplementing IAS 39 to exclude from its scope certain forward contracts resulting in business combinations, to clarify the period of reclassifying gains or losses on the hedged instruments from equity to profit or loss and to provide guidance for circumstances when prepayment options are closely related to the host contract; clarification that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within the scope of IFRIC 9; and removal of the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

– Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as assets held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of assets which were previously held for rental under IAS 16 and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Management does not expect the amendments to have any material effect on the Group’s consolidated financial statements.

– Amendment to IFRS 1 and IAS 27 (“Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate”), which is effective for annual periods beginning on or after 1 January 2009. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognized in profit or loss rather than as a recovery of the investment. The amendment will not have a material impact on the Group’s consolidated financial statements.

– Amendment to IAS 39 “Financial instruments: recognition and measurement” (“IAS 39”), which is effective for annual periods beginning on or after 1 July 2009. The amendment to IAS 39 clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The application of this amendment is not expected to materially affect the Group’s consolidated financial statements.

– IFRIC 15 “Agreements for the Construction of Real Estate” (“IFRIC 15”), which is effective for annual periods beginning on or after 1 January 2009. IFRIC 15 addresses diversity in accounting for real estate sales as some entities recognise revenue in accordance with IAS 18 “Revenue” (when the risks and rewards in the real estate are transferred) and others recognise revenue as the real estate is developed in accordance with IAS 11 “Construction Contracts”. The interpretation clarifies which standard (IAS 18 or IAS 11) should be applied to particular transactions and is likely to mean that IAS 18 will be applied to a wider range of transactions. Entities that have previously recognised revenue from residential real estate sales under IAS 11 will be the most significantly affected and will probably be required to apply IAS 18.

## 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" ("IFRIC 16") which is effective for annual periods beginning on or after 1 October 2008. This interpretation relates to the criteria required to apply hedge accounting in hedge of a net investment in a foreign operation in accordance with IAS 39. The application of this interpretation is not expected to materially affect the Group's consolidated financial statements.
- IFRIC 17 "Distributions of Non-cash assets to owners" ("IFRIC 17") which is effective for annual periods beginning on or after 1 July 2009. The interpretation provides guidance on accounting of distribution of assets other than cash (non-cash assets) as dividends to its owners acting in their capacity as owners. It also clarifies the situations, when entity gives its owners a choice of receiving either non-cash assets or a cash alternative. The Group will apply the interpretation starting from 1 January 2010.
- IFRIC 18 "Transfers of Assets from customers" ("IFRIC 18") which is effective for annual periods beginning on or after 1 July 2009. The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. The application of this interpretation is not expected to materially affect the Group's consolidated financial statements.
- IFRS 7 "Financial Instruments: Disclosures" ("IFRS 7") which is effective for annual periods beginning on or after 1 January 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.
- Amendments to IFRIC 9 and IAS 39 "Embedded Derivatives" which is effective for annual periods ending on or after 30 June 2009. The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.

## 6 CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

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

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

### 6.1 Consolidation of subsidiaries

Management judgment is involved in the assessment of control and the consolidation of certain affiliated entities in the Group's consolidated financial statements. Following the change in the Board composition of OAO Gazprombank, the Group determined that it ceased to have the ability to control the financial and operating policies of OAO Gazprombank and its subsidiaries including Sibur-Holding and Gazprom-Media (see Note 4). Management judgement was also required with respect to the deconsolidation of NPF Gazfund in 2007.

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

### 6.2 Tax legislation and uncertain tax position

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 38).

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 and 35).

***Impairment of available-for-sale financial assets***

The determination under IAS 39 whether an available-for-sale financial asset is impaired requires significant judgment. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. Management applies judgment on a case by case basis to determine whether a decline in fair value of an available-for-sale financial asset below its cost is significant or prolonged. Impairment charges are given in Note 15.

***Impairment of other assets***

The estimation of forecast cash flows 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 addtition, judgement is applied in determining the cash generating units assessed for impairment.

The value in use of assets or cash-generating units related to oil and gas operations are based on the cash flows expected from oil and gas production volumes, which include both proved reserves as well as certain volumes of those that are expected to constitute proved and probable reserves in the future. Impairment charges are given in Notes 12 and 35.

***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 consolidated statement of 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.

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 value of financial assets and liabilities, other than financial instruments that are traded in an active market, is determined by applying valuation techniques. Discounted cash flow analysis is used for loans and receivables as well as debt instruments that are not traded in active markets. Management uses its judgment to make assumptions based on market conditions existing at each balance sheet date (see Note 5).

### 6.7 Fair value estimation for acquisitions

In accordance with IFRS 3, the Group recognizes the assets and liabilities acquired in a business combination based upon their fair values. In cases where market values are available such values are utilized in the measurement of acquired assets and liabilities. When market values are not available, fair value determination includes discounted cash flow models based upon management's assumptions and estimates regarding future cash flows, or replacement costs models (see Note 33). The determination of fair value of assets acquired and liabilities assumed requires management to make judgments with respect to the valuation model applied, the amount an timing of cash flows forecasts or other assumptions such as discount rates.

### 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, 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 gas distribution business. Following the practice suggested by IAS 14, "Segment Reporting" ("IAS 14") for vertically integrated businesses the following business segments are identified within the Group:

- Production of gas – exploration and production of gas;
- Transport – transportation of gas;
- Distribution – domestic and export sale of gas;
- Production of crude oil and gas condensate – exploration 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
- Other – other activities, including electric and heat energy generation and sales, construction and gas storage.

(In millions of Russian Roubles)

## 7 SEGMENT INFORMATION (continued)

These segments are reflected by the Group's organizational structure and the Group's internal financial reporting system.

| | Production of gas | Transport | Distribution | Production of crude oil and gas condensate | Refining | Other | Total |
|---|---|---|---|---|---|---|---|
| **31 December 2008** | | | | | | | |
| Segment assets | 1,278,654 | 1,874,130 | 691,143 | 669,016 | 268,514 | 1,194,308 | 5,975,765 |
| Associated undertakings and jointly controlled entities | 81,865 | 71,860 | 73,375 | 450,774 | 51,996 | 42,273 | 772,143 |
| Unallocated assets | | | | | | | 724,913 |
| Inter-segment eliminations | | | | | | | (304,253) |
| **Total assets** | | | | | | | 7,168,568 |
| Segment liabilities | 130,639 | 169,169 | 239,984 | 114,826 | 83,823 | 191,184 | 929,625 |
| Unallocated liabilities | | | | | | | 1,630,097 |
| Inter-segment eliminations | | | | | | | (304,253) |
| **Total liabilities** | | | | | | | 2,255,469 |
| Capital additions | 224,176 | 248,114 | 34,819 | 79,489 | 50,554 | 76,971 | 714,123 |
| Depreciation | 44,890 | 83,382 | 1,309 | 32,823 | 16,621 | 15,991 | 195,016 |
| Charge for impairment provisions and other provisions | 5,452 | 11,498 | 34,156 | 741 | 3,061 | 54,185 | 109,093 |
| Unallocated impairment provisions and other provisions | | | | | | | 6,249 |
| Total impairment provisions and other provisions | | | | | | | 115,342 |

| | Production of gas | Transport | Distribution | Production of crude oil and gas condensate | Refining | Other | Total |
|---|---|---|---|---|---|---|---|
| **31 December 2007** | | | | | | | |
| Segment assets | 1,096,544 | 1,685,608 | 482,247 | 704,395 | 333,051 | 1,222,032 | 5,523,877 |
| Associated undertakings and jointly controlled entities | 74,664 | 32,258 | 51,178 | 457,972 | 33,346 | 20,985 | 670,403 |
| Unallocated assets | | | | | | | 849,638 |
| Inter-segment eliminations | | | | | | | (251,362) |
| **Total assets** | | | | | | | 6,792,556 |
| Segment liabilities | 102,058 | 150,933 | 178,399 | 90,399 | 89,601 | 283,446 | 894,836 |
| Unallocated liabilities | | | | | | | 1,835,985 |
| Inter-segment eliminations | | | | | | | (251,362) |
| **Total liabilities** | | | | | | | 2,479,459 |
| Capital additions | 187,486 | 193,664 | 31,324 | 62,427 | 39,195 | 54,306 | 568,402 |
| Depreciation | 43,404 | 83,238 | 303 | 33,426 | 14,379 | 8,827 | 183,577 |
| Charge for impairment provisions and other provisions | 8,789 | 20,497 | 1,462 | 1,824 | 3,811 | 6,029 | 42,412 |
| Unallocated impairment provisions and other provisions | | | | | | | 1,526 |
| Total impairment provisions and other provisions | | | | | | | 43,938 |

Segment assets consist primarily of property, plant and equipment and current assets. Unallocated assets include VAT recoverable, cash and cash equivalents, restricted cash and other non-current assets.

(In millions of Russian Roubles)

## 7 SEGMENT INFORMATION (continued)

Segment liabilities comprise operating liabilities, excluding items such as taxes payable, and provisions for liabilities and charges.

Charges for impairment provisions and other provisions above include impairment provisions for accounts receivable, assets under construction, inventory and other non-current assets and provisions for liabilities and charges.

| | Production of gas | Transport | Distribution | Production of crude oil and gas condensate | Refining | Other | Total |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2008** | | | | | | | |
| **Segment revenues** | | | | | | | |
| Inter-segment sales | 290,847 | 561,050 | 118,021 | 178,280 | 8,462 | 20,994 | 1,177,654 |
| External sales | 11,678 | 70,685 | 2,254,723 | 214,955 | 652,956 | 313,963 | 3,518,960 |
| **Total segment revenues** | 302,525 | 631,735 | 2,372,744 | 393,235 | 661,418 | 334,957 | 4,696,614 |
| **Segment expenses** | | | | | | | |
| Inter-segment expenses | (6,427) | (71,352) | (853,380) | - | (196,291) | (50,204) | (1,177,654) |
| External expenses | (254,157) | (413,645) | (660,261) | (290,861) | (316,179) | (317,061) | (2,252,164) |
| **Total segment expenses** | (260,584) | (484,997) | (1,513,641) | (290,861) | (512,470) | (367,265) | (3,429,818) |
| **Segment result** | 41,941 | 146,738 | 859,103 | 102,374 | 148,948 | (32,308) | 1,266,796 |
| Unallocated operating expenses | | | | | | | (6,490) |
| **Operating profit** | | | | | | | 1,260,306 |
| Share of net income (loss) of associated undertakings and jointly controlled entities | 5,503 | (4,506) | 42,007 | (19,944) | 2,567 | (42,313) | (16,686) |

| | Production of gas | Transport | Distribution | Production of crude oil and gas condensate | Refining | Other | Total |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2007** | | | | | | | |
| **Segment revenues** | | | | | | | |
| Inter-segment sales | 245,206 | 493,517 | 64,560 | 95,418 | 6,242 | 17,027 | 921,970 |
| External sales | 5,623 | 41,740 | 1,522,080 | 167,758 | 525,216 | 160,828 | 2,423,245 |
| **Total segment revenues** | 250,829 | 535,257 | 1,586,640 | 263,176 | 531,458 | 177,855 | 3,345,215 |
| **Segment expenses** | | | | | | | |
| Inter-segment expenses | (5,129) | (51,669) | (739,410) | - | (110,013) | (15,749) | (921,970) |
| External expenses | (225,579) | (337,159) | (471,227) | (174,729) | (330,530) | (146,474) | (1,685,698) |
| **Total segment expenses** | (230,708) | (388,828) | (1,210,637) | (174,729) | (440,543) | (162,223) | (2,607,668) |
| **Segment result** | 20,121 | 146,429 | 376,003 | 88,447 | 90,915 | 15,632 | 737,547 |
| Unallocated operating expenses | | | | | | | (35,769) |
| **Operating profit** | | | | | | | 701,778 |
| Share of net income of associated undertakings and jointly controlled entities | 4,409 | 2,654 | 5,461 | 4,299 | 6,795 | 616 | 24,234 |

(In millions of Russian Roubles)

## 7 SEGMENT INFORMATION (continued)

The inter-segment sales mainly consist of:

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

Internal transfer prices, mostly for Production of gas and Transport segments, are established by the management of the Group with the objective of providing specific funding requirements of the individual subsidiaries within each segment. Prices are determined on a cost plus basis.

Included within unallocated operating expenses are corporate expenses, including provision for the impairment of certain financial assets.

Substantially all of the Group's operating assets are located in the Russian Federation. Sales by geographical regions are disclosed in Note 25.

## 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. Restricted cash balances include cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings. In addition, restricted cash comprises cash balances of RR 162 and RR 9,051 as of 31 December 2008 and 2007, respectively, in subsidiary banks, which are restricted as to withdrawal under banking regulations.

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

| | 31 December | |
|---|---|---|
| | **2008** | **2007** |
| Cash on hand | 4,949 | 13,218 |
| External credit rating of BB and above | 301,849 | 206,416 |
| External credit rating of B | 16,308 | 46,299 |
| No external credit rating | 20,727 | 13,176 |
| Total cash and cash equivalents | **343,833** | **279,109** |

Sovereign credit rating of the Russian Federation published by Standard and Poor's is BBB[1].

[1] By international scale in foreign currency.

(In millions of Russian Roubles)

## 9 SHORT-TERM FINANCIAL ASSETS

| Notes | | 31 December 2008 | 2007 |
|---|---|---|---|
| | Financial assets held for trading: | | |
| 39 | Corporate bonds | 1,206 | 57,203 |
| | Corporate shares | 2,017 | 13,618 |
| | Government and municipal bonds | 1,109 | 13,343 |
| | Promissory notes | 7,874 | 12,145 |
| | | 12,206 | 96,309 |
| | Available-for-sale financial assets: | | |
| 39 | Bonds | 4,300 | 1,730 |
| | Promissory notes (net of impairment provision of RR 779 and RR 3,171 as of 31 December 2008 and 2007, respectively) | 6,942 | 15,872 |
| | | 11,242 | 17,602 |
| | Total short-term financial assets | **23,448** | **113,911** |

Financial assets held for trading owned by the Group's banking subsidiaries amounted to RR 8,989 and RR 88,933 as of 31 December 2008 and 31 December 2007, respectively. These assets primarily comprise marketable equity and debt securities intended to generate short-term profits through trading.

The assets held for trading as of 31 December 2007 mainly included financial assets of OAO Gazprombank. The bank was deconsolidated in June 2008 (see Note 34).

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

| | 31 December 2008 | 2007 |
|---|---|---|
| External credit rating of BB and above | 12,543 | 65,480 |
| External credit rating of B | 1,947 | 7,922 |
| No external credit rating | 6,941 | 26,891 |
| Total short-term financial assets | **21,431** | **100,293** |

Short-term financial assets with no external credit rating are mainly represented by investments in debt securities quoted on the Russian security market and securities, which are not quoted.

## 10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | 31 December 2008 | 2007 |
|---|---|---|
| **Financial assets** | | |
| Trade receivables (net of impairment provision of RR 96,599 and RR 70,820 as of 31 December 2008 and 2007, respectively) | 393,996 | 307,311 |
| Other receivables (net of impairment provision of RR 16,426 and RR 19,669 as of 31 December 2008 and 2007, respectively) | 113,300 | 270,044 |
| | 507,296 | 577,355 |
| **Non-financial assets** | | |
| Prepayments and advances (net of impairment provision of RR 1,150 and RR 559 as of 31 December 2008 and 2007, respectively) | 168,638 | 120,109 |
| Total accounts receivable and prepayments | **675,934** | **697,464** |

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

As of 31 December 2008 and 2007 RR 318,757 and RR 211,416 of trade receivables, net of impairment provision, respectively, are denominated in foreign currencies, mainly US dollar and Euro.

**(In millions of Russian Roubles)**

## 10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

As of 31 December 2008 and 2007 other receivables include RR 33,680 and RR 215,926, respectively, relating to the operations of Group's banking subsidiaries. As of 31 December 2007 other receivables of banking subsidiaries were presented by OAO Gazprombank. The bank was deconsolidated in June 2008 (see Note 34). This balance mainly represents deposits with other banks and loans issued to customers at commercial rates based on credit risks and maturities.

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

As of 31 December 2008 the average effective interest rates on banking deposits and loans equaled 6.5% on balances denominated in Russian Roubles and varied from 1.2% to 4.1% on balances denominated in foreign currencies.

As of 31 December 2007 the average effective interest rates on banking deposits and loans ranged from 7.0% to 13.5% on balances denominated in Russian Roubles and from 3.3% to 8.8% on balances denominated in foreign currencies.

The fair value of banking deposits and loans approximate the carrying values, as the majority of them are short-term in nature and are issued at commercial rates.

Approximately 2% and 3% of accounts receivable settled during the years ended 31 December 2008 and 2007, respectively, were settled via mutual settlements or other non-cash settlements.

As of 31 December 2008 and 2007, trade receivables of RR 23,260 and RR 29,756, 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 2008 | 31 December 2007 |
|---|---|---|
| Up to 6 months | 17,807 | 20,251 |
| From 6 to 12 months | 1,952 | 1,176 |
| From 1 to 3 years | 855 | 3,444 |
| More than 3 years | 2,646 | 4,885 |
| | **23,260** | **29,756** |

As of 31 December 2008 and 2007, trade receivables of RR 108,756 and RR 88,852, respectively, were impaired and provided for. The amount of the provision was RR 96,599 and RR 70,820 as of 31 December 2008 and 2007, respectively. The individually impaired receivables mainly relate to gas sales to certain Russian regions and FSU countries, which are in difficult economic situations. In the management's view a portion of the receivables will be recovered. The ageing analysis of these receivables is as follows:

| Ageing from the due date | Gross book value 31 December | | Provision 31 December | | Net book value 31 December | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Up to 6 months | 11,583 | 9,824 | (8,302) | (6,533) | 3,281 | 3,291 |
| From 6 to 12 months | 11,146 | 10,623 | (10,544) | (8,028) | 602 | 2,595 |
| From 1 to 3 years | 26,652 | 29,562 | (25,969) | (23,953) | 683 | 5,609 |
| More than 3 years | 59,375 | 38,843 | (51,784) | (32,306) | 7,591 | 6,537 |
| | **108,756** | **88,852** | **(96,599)** | **(70,820)** | **12,157** | **18,032** |

As of 31 December 2008 and 2007, trade receivables of RR 358,579 and RR 259,523, respectively, were neither past due nor impaired. Management's experience indicates customer payment histories vary by geography. The credit quality of these assets can be analysed as follows:

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Europe and other countries gas, crude oil, gas condensate and refined products debtors | 212,625 | 151,983 |
| FSU gas, crude oil, gas condensate and refined products debtors | 80,526 | 53,121 |
| Domestic gas, crude oil, gas condensate and refined products debtors | 27,349 | 26,867 |
| Power sales debtors | 3,733 | 2,555 |
| Transportation services debtors | 3,653 | 2,287 |
| Other trade debtors | 30,693 | 22,710 |
| **Total trade receivables neither past due, nor impaired** | **358,579** | **259,523** |

(In millions of Russian Roubles)

## 10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

As of 31 December 2008 and 2007, trade receivables that would otherwise be past due whose terms have been renegotiated, amounted to RR 13,384 and RR 7,445, respectively.

Movements of the Group provision for impairment of trade receivables are as follows:

| | Trade receivables Year ended 31 December | | Other receivables Year ended 31 December | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Impairment provision at the beginning of the year | 70,820 | 66,020 | 19,669 | 23,951 |
| Impairment provision accrued* | 30,880 | 12,614 | 4,390 | 893 |
| Write-off of receivables during the year | (677) | (529) | (56) | (41) |
| Release of previously created provision* | (1,849) | (4,913) | (1,157) | (5,134) |
| Unwind of discounting* | (1,400) | (2,372) | - | - |
| Acquisition of subsidiaries | - | - | 1,235 | - |
| Gazprombank Group deconsolidation (see Note 34) | (1,175) | - | (7,655) | - |
| **Impairment provision at the end of the year** | **96,599** | **70,820** | **16,426** | **19,669** |

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

Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

## 11 INVENTORIES

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Gas in pipelines and storage | 132,085 | 109,840 |
| Materials and supplies (net of an obsolescence provision of RR 409 and RR 1,653 as of 31 December 2008 and 2007, respectively) | 114,918 | 89,675 |
| Goods for resale (net of an obsolescence provision of RR 165 and RR 143 as of 31 December 2008 and 2007, respectively) | 16,069 | 18,376 |
| Crude oil and refined products | 13,882 | 27,515 |
| | **276,954** | **245,406** |

(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 31.12.06** | | | | | | | | |
| Cost | 1,621,078 | 595,817 | 1,020,655 | 1,024,589 | 305,314 | 90,081 | 374,995 | 5,032,529 |
| Accumulated depreciation | (782,076) | (234,512) | (490,762) | (429,980) | (30,865) | (29,366) | - | (1,997,561) |
| **Net book value at 31.12.06** | **839,002** | **361,305** | **529,893** | **594,609** | **274,449** | **60,715** | **374,995** | **3,034,968** |
| Depreciation | (44,298) | (18,561) | (60,286) | (36,273) | (22,619) | (2,559) | - | (184,596) |
| Additions | 69 | 84 | 16,422 | 903 | 17,595 | 188 | 533,141 | 568,402 |
| Acquisition of subsidiaries | - | - | 49,834 | 42,920 | - | 25 | 16,575 | 109,354 |
| Transfers | 77,261 | 60,499 | 109,078 | 100,231 | - | 2,861 | (349,930) | - |
| Disposals | (146) | (594) | (5,464) | (7,413) | - | (5,748) | (18,276) | (37,641) |
| Release of (charge for) impairment provision | 55 | 38 | 132 | 22 | - | - | (257) | (10) |
| **Net book value at 31.12.07** | **871,943** | **402,771** | **639,609** | **694,999** | **269,425** | **55,482** | **556,248** | **3,490,477** |
| **As of 31.12.07** | | | | | | | | |
| Cost | 1,698,146 | 654,681 | 1,190,182 | 1,156,744 | 322,907 | 83,597 | 556,248 | 5,662,505 |
| Accumulated depreciation | (826,203) | (251,910) | (550,573) | (461,745) | (53,482) | (28,115) | - | (2,172,028) |
| **Net book value at 31.12.07** | **871,943** | **402,771** | **639,609** | **694,999** | **269,425** | **55,482** | **556,248** | **3,490,477** |
| Depreciation | (44,990) | (20,395) | (70,692) | (41,229) | (20,482) | (2,407) | - | (200,195) |
| Additions | 404 | 275 | 8,953 | 7,869 | 5,838 | 1,615 | 689,169 | 714, 123 |
| Acquisition of subsidiaries | 18,124 | - | 60,375 | 82,491 | - | 7 | 5,802 | 166,799 |
| Disposal of subsidiaries | (48) | - | (25,198) | (18,703) | - | (800) | (27,742) | (72,491) |
| Transfers | 85,402 | 59,253 | 156,243 | 139,990 | - | 5,252 | (446,140) | - |
| Disposals | (20) | (1,921) | (4,044) | (1,819) | - | (3,633) | (12,589) | (24,026) |
| Charge for impairment provision | - | - | (22,470) | (25,954) | - | - | (5,741) | (54,165) |
| **Net book value at 31.12.08** | **930,815** | **439,983** | **742,776** | **837,644** | **254,781** | **55,516** | **759,007** | **4,020,522** |
| **As of 31.12.08** | | | | | | | | |
| Cost | 1,802,481 | 710,643 | 1,348,119 | 1,332,316 | 328,745 | 82,248 | 759,007 | 6,363,559 |
| Accumulated depreciation | (871,666) | (270,660) | (605,343) | (494,672) | (73,964) | (26,732) | - | (2,343,037) |
| **Net book value at 31.12.08** | **930,815** | **439,983** | **742,776** | **837,644** | **254,781** | **55,516** | **759,007** | **4,020,522** |

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. Based on the results of the impairment tests the Group recognized in 2008, an impairment loss of RR 48,424 for power generating assets (see Note 35). The impairment was primarily triggered by the increase in discount rates, projected reduction in electricity consumption and expected oil and electricity prices. The increase in discount rates was caused by unfavourable changes in macroeconomic indicators. As of 31 December 2008 and 2007 operating assets are shown net of provision for impairment of RR 50,750 and RR 2,326, respectively.

Assets under construction are presented net of a provision for impairment of RR 93,826 and RR 92,060 as of 31 December 2008 and 2007, respectively. Charges for impairment provision of assets under construction primarily relate to projects that have been indefinitely suspended and currently excluded from the Group's investment program.

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 4,167 and RR 7,080 as of 31 December 2008 and 2007, respectively.

Included in additions above is capitalized interest of RR 28,001 and RR 19,661 for the years ended 31 December 2008 and 2007, respectively. Capitalization rates of 7.39% and 7.00% were used representing the weighted average borrowing cost of the relevant borrowings for the years ended 31 December 2008 and 2007, respectively.

Depreciation expenses in the consolidated statement of income do not include depreciation, which is considered as a cost of self-constructed assets (and thus capitalized rather than expensed) in amount of RR 2,319 and RR 1,518 for the years ended 31 December 2008 and 2007, respectively. Moreover, depreciation expenses in the consolidated statement of income do not include depreciation that is capitalized as a component of cost of inventories, consisting primarily of depreciation that is capitalized in cost of gas in amount of RR 4,471 and RR 2,359 for the years ended 31 December 2008 and 2007, respectively.

(In millions of Russian Roubles)

## 13 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES

| Notes | | Carrying value as of 31 December 2008 | Carrying value as of 31 December 2007 | Group's share of the profit (loss)* for 2008 | Group's share of the profit (loss)* for 2007 |
|---|---|---|---|---|---|
| | Sakhalin Energy Investment Company Ltd. | 234,917 | 239,606 | (10,325) | 669 |
| 36 | OAO NGK Slavneft and its subsidiaries | 151,151 | 145,464 | 8,774 | 10,007 |
| 36 | OAO NOVATEK | 75,363 | 68,973 | 4,446 | 3,631 |
| 36 | OAO Tomskneft VNK and its subsidiaries | 69,286 | 88,181 | (19,033) | - |
| 36 | Wintershall Gas GmbH & Co. KG | 44,428 | 31,339 | 7,284 | 4,302 |
| 36 | OAO TGC-1 | 32,309 | - | (6,950) | - |
| 36 | OAO Beltransgaz | 28,179 | - | (3,322) | - |
| 37 | Nord Stream AG | 25,528 | - | (58) | - |
| 36 | OAO Salavanefteorgsyntez | 20,959 | - | - | - |
| 34, 36 | Gazprombank Group** | - | - | (37,667) | - |
| 36 | SGT EuRoPol GAZ S.A. | 16,921 | 31,131 | (1,273) | 2,664 |
| | OAO Moscovsky NPZ | 15,922 | 15,548 | 374 | 282 |
| | Wintershall AG | 12,856 | 10,259 | 3,459 | - |
| 36 | TOO KazRosGaz | 9,898 | 4,388 | 4,693 | 2,747 |
| | OOO Sibmetakhim | 4,153 | - | 808 | - |
| 36 | AO Latvijas Gaze | 4,100 | 3,571 | 373 | 563 |
| | ZAO Nortgaz | 3,876 | 2,843 | 1,034 | 795 |
| | Shtokman Development AG | 2,622 | - | 86 | - |
| 36 | AO Lietuvos Dujos | 2,226 | 2,095 | 9 | 391 |
| 36, 37 | Blue Stream Pipeline company B.V. | 1,232 | 895 | 147 | (10) |
| 36 | RosUkrEnergo AG | 33 | 73 | 25,334 | (5,720) |
| | Other (net of provision for impairment of RR 3,000 and RR 5,819 as of 31 December 2008 and 31 December 2007, respectively) | 16,184 | 26,037 | 5,121 | 3,913 |
| | | **772,143** | **670,403** | **(16,686)** | **24,234** |

* represents Group's share of the profit (loss) of the associated undertakings and jointly controlled entities for the years ended 31 December 2008 and 2007, respectively, or for the period during which a company was included in investments in associated undertakings and jointly controlled entities.

** Gazprombank Group is accounted for as equity investment since 24 June 2008 due to deconsolidation of Gazprombank Group (see Note 34). The Group ceased to consolidate OAO Gazprombank and its subsidiaries from this date. The Group's share of Gazprombank Group's net loss from the date of the deconsolidation exceeded the investment resulting in reducing the carrying value to RR nil.

| | Year ended 31 December 2008 | Year ended 31 December 2007 |
|---|---|---|
| **Balance at the beginning of the reporting period** | **670,403** | **318,142** |
| Reclassification of investment in OAO Beltransgaz from Available-for-sale long-term financial assets | 16,156 | - |
| Share of net (loss) income of associated undertakings and jointly controlled entities (see Note 35) | (16,686) | 24,234 |
| Distribution from associated undertakings and jointly controlled entities | (38,434) | (10,933) |
| Translation differences | 5,559 | 3,683 |
| Gazprombank Group deconsolidation (see Note 34) | (4,740) | - |
| Change in equity of associated undertakings and jointly controlled entities | (4,972) | - |
| Acquisitions and disposals | 144,857 | 335,277 |
| **Balance at the end of the reporting period** | **772,143** | **670,403** |

**(In millions of Russian Roubles)**

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

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

| | Assets | Liabilities | Revenues | Profit (loss) |
|---|---|---|---|---|
| **31 December 2008** | | | | |
| Gazprombank Group* | 1,999,778 | 1,863,070 | 141,912 | (91,981) |
| Sakhalin Energy Investment Company Ltd. | 687,285 | 238,280 | 18,518 | (20,649) |
| OAO NGK Slavneft and its subsidiaries | 617,671 | 255,128 | 183,383 | 12,019 |
| Wintershall Gas GmbH & Co. KG | 159,329 | 127,328 | 350,749 | 17,735 |
| OAO Tomskneft VNK and its subsidiaries | 155,267 | 98,273 | 80,562 | 1,933 |
| OAO NOVATEK | 139,907 | 43,267 | 79,272 | 22,899 |
| RosUkrEnergo AG | 122,178 | 94,025 | 373,150 | 22,463 |
| OAO TGC-1** | 79,286 | 16,493 | 15,083 | 95 |
| Blue Stream Pipeline company B.V. | 69,123 | 64,330 | 7,324 | 591 |
| SGT EuRoPol GAZ S.A. | 61,304 | 26,053 | 12,485 | (1,166) |
| OAO Salavatnefteorgsyntez*** | 59,661 | 35,764 | - | - |
| Nord Stream AG***** | 56,385 | 4,309 | 1 | (116) |
| OAO Beltransgaz**** | 55,980 | 16,114 | 71,295 | 2,805 |
| OAO Moscovsky NPZ | 46,703 | 3,615 | 10,745 | 966 |
| AO Lietuvos Dujos | 30,437 | 7,794 | 17,390 | 715 |
| AO Latvijas Gaze | 28,762 | 9,643 | 19,320 | 1,097 |
| Wintershall AG | 24,529 | 9,840 | 106,493 | 7,029 |
| TOO KazRosGaz | 20,956 | 1,159 | 25,675 | 9,385 |
| ZAO Nortgaz | 10,792 | 3,194 | 5,762 | 2,027 |
| Shtokman Development AG | 10,295 | 4,354 | - | 169 |
| OOO Sibmetakhim****** | 8,972 | 665 | 4,946 | 2,795 |

* Deconsolidation of Gazprombank Group since 24 June 2008 (see Note 34). The revenue and loss of Gazprombank Group are disclosed from the date it was accounted for as equity investment to 31 December 2008. Presented revenue of Gazprombank Group is identified according to the Group accounting policy and includes revenue of petrochemical business, media business, heavy machinery business and other non-banking companies.
** In July 2008 the Group acquired 28.7% interest in OAO TGC-1 for RR 39,219. The revenues and profit of OAO TGC-1 for the year ended 31 December 2008 are disclosed from the date of acquisition.
*** The revenues and profit (loss) of OAO Salavatnefteorgsyntez for the year ended 31 December 2008 are not disclosed as it was acquired in late 2008.
**** In February 2008 the Group purchased 12.5% interest in OAO Beltransgaz for USD 625 million. As a result the Group increased its interest in OAO Beltransgaz up to 25%. The revenues and profit of OAO Beltransgaz for the year ended 31 December 2008 are disclosed from the date of acquisition of additional shares.
***** In the first half of 2008 the Group contributed additional RR 21,686 into the charter capital of Nord Stream AG. The Group's interest did not change as a result of this transaction.
****** Group's share in OOO Sibmetakhim decreased to 50% due to deconsolidation of Gazprombank Group (see Note 34).

| **31 December 2007** | Assets | Liabilities | Revenues | Profit (loss) |
|---|---|---|---|---|
| Sakhalin Energy Investment Company Ltd.* | 454,270 | 83,904 | 21,143 | (31,442) |
| OAO NGK Slavneft and its subsidiaries | 402,339 | 101,857 | 159,584 | 13,625 |
| Wintershall Gas GmbH & Co. KG | 112,143 | 92,028 | 215,230 | 8,733 |
| OAO NOVATEK | 103,975 | 22,163 | 62,431 | 18,736 |
| RosUkrEnergo AG | 96,683 | 74,609 | 259,059 | 20,770 |
| OAO Tomskneft VNK and its subsidiaries* | 74,479 | 53,067 | - | - |
| SGT EuRoPol GAZ S.A. | 62,469 | 25,571 | 14,249 | 5,441 |
| OAO Stroytransgaz | 58,244 | 39,315 | 37,971 | 428 |
| Blue Stream Pipeline company B.V. | 57,621 | 54,155 | 6,734 | (39) |
| OAO Moscovsky NPZ | 43,633 | 3,615 | 9,611 | 696 |
| AO Lietuvos Dujos | 25,420 | 5,472 | 10,413 | 1,056 |
| AO Latvijas Gaze | 24,374 | 7,694 | 12,081 | 1,656 |
| Wintershall AG* | 23,216 | 12,261 | - | - |
| TOO KazRosGaz | 9,693 | 916 | 15,921 | 5,494 |
| ZAO Nortgaz | 7,911 | 2,339 | 5,498 | 1,559 |

* The revenues and profit (loss) of Sakhalin Energy Investment Company Ltd. for the year 2007 are disclosed from the date of acquisition. The revenues and profit (loss) of OAO Tomskneft VNK and its subsidiaries and of Wintershall AG for the year ended 31 December 2007 are not disclosed as they was acquired in late 2007.

**(In millions of Russian Roubles)**

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

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

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| OAO NOVATEK | 33,130 | 111,149 |
| AO Lietuvos Dujos | 7,387 | 6,365 |
| OAO TGC-1 | 3,761 | - |
| AO Latvijas Gaze | 3,193 | 7,161 |

**Principal associated undertakings and jointly controlled entities**

| Entities | Country | Nature of operations | % of ordinary shares held as of 31 December* 2008 | 2007 |
|---|---|---|---|---|
| ZAO Achimgaz | Russia | Exploration and production of gas | 50 | 50 |
| OAO Beltransgaz | Belarus | Transportation and gas supply | 25 | - |
| Blue Stream Pipeline company B.V. (BSPC) | Netherlands | Construction, gas transportation | 50 | 50 |
| Bosphorus Gaz Corporation A.S. | Turkey | Gas distribution | 40 | 40 |
| Centrex Beteiligungs GmbH | Austria | Gas distribution | 38 | 38 |
| SGT EuRoPol GAZ S.A. | Poland | Transportation and gas distribution | 48 | 48 |
| Gaz Project Development Central Asia AG | Switzerland | Gas distribution | 50 | 50 |
| OAO Gazprombank | Russia | Banking | 45 | 45 |
| AO Gazum | Finland | Gas distribution | 25 | 25 |
| TOO KazRosGaz | Kazakhstan | Gas processing and sale 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 |
| OAO Moskovsky NPZ | Russia | Processing and distribution of refined products | 39 | 39 |
| ZAO Nortgaz | Russia | Exploration and sale of gas and gas condensate | 51 | 51 |
| OAO NOVATEK | Russia | Production and distribution of gas | 19 | 19 |
| Nord Stream AG | Switzerland | Construction, gas transportation | 51 | 51 |
| AO Overgaz Inc. | Bulgaria | Gas distribution | 50 | 50 |
| ZAO Panrusgaz | Hungary | Gas distribution | 40 | 40 |
| AO Prometheus Gas | Greece | Foreign trade activity, construction | 50 | 50 |
| RosUkrEnergo AG | Switzerland | Gas distribution | 50 | 50 |
| Sakhalin Energy Investment Company Ltd. | Bermuda Islands | Oil production, production of LNG | 50 | 50 |
| OAO Salavatnefteorgsyntez** | Russia | Processing and distribution of refined products | 50 | - |
| OOO Sibmetakhim | Russia | Gas processing and sale of petrochemicals | 50 | 100 |
| OAO NGK Slavneft | Russia | Production of oil, sale of oil and refined products | 50 | 50 |
| Shtokman Development AG | Switzerland | Exploration and production of gas | 51 | - |
| OAO TGC-1 | Russia | Production and transfer of electric and heat energy | 29 | - |
| OAO Tomskneft VNK | Russia | Oil production | 50 | 50 |
| AO Turusgaz | Turkey | Gas distribution | 45 | 45 |
| Vemex s.r.o | Czech Republic | Gas distribution | 33 | 33 |
| Wintershall AG | Germany | Production of oil and gas distribution | 49 | 49 |
| Wintershall Gas GmbH & Co. KG | Germany | Transportation and gas distribution | 50 | 50 |
| Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH) | Germany | Gas distribution | 50 | 50 |
| Wintershall Erdgas Handelshaus ZUG AG (WIEE) | Switzerland | Gas distribution | 50 | 50 |

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

** Investment in OAO Salavatnefteorgsyntez is accounted under the equity method of accounting. The amount of ordinary shares which provides voting rights to the Group is restricted to 30% till the date of public offer for shares purchase to minority shareholders. The public offer to minority shareholders was made by the Group in February 2009.

**(In millions of Russian Roubles)**

## 14 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | 31 December | |
|---|---|---|
| | **2008** | **2007** |
| Long-term accounts receivable and prepayments (net of impairment provision of RR 17,303 and RR 17,507 as of 31 December 2008 and 2007, respectively) | 150,502 | 270,430 |
| Advances for assets under construction (net of impairment provision of RR 6 and RR 127 of 31 December 2008 and 2007, respectively) | 193,303 | 131,952 |
| | **343,805** | **402,382** |

As of 31 December 2008 and 2007 long-term accounts receivable included RR 33,163 and RR 180,620, relating to the operations of Group's banking subsidiaries, respectively. As of 31 December 2007 long-term accounts receivable of the banking subsidiaries were presented by OAO Gazprombank. The bank was deconsolidated in June 2008 (see Note 34). This balance mainly represents deposits and long-term loans issued to customers at commercial rates based on credit risk and maturities.

As of 31 December 2008 and 2007, long-term accounts receivable and prepayments with carrying value RR 150,502 and RR 270,430 have the estimated fair value RR 146,663 and RR 268,144, respectively.

Long-term accounts receivable and prepayments include prepayments in amount of RR 3,136 and nil as of 31 December 2008 and 2007 respectively.

Long-term accounts receivable of RR 71,029 and RR 207,039 as of 31 December 2008 and 2007, respectively, were impaired and provided for. These receivables as of 31 December 2008 and 2007 mainly related to banking subsidiaries operations. The amount of the provision was RR 17,303 and RR 17,507 as of 31 December 2008 and 2007, respectively.

As of 31 December 2008 and 2007, long-term accounts receivable of RR 3 and RR 689, respectively, were past due but not impaired.

As of 31 December 2008 and 2007, long-term accounts receivable of RR 96,773 and RR 80,209, respectively, were neither past due, nor impaired. The credit quality of these assets can be analysed as follows:

| | 31 December | |
|---|---|---|
| | **2008** | **2007** |
| Accounts receivable of Group's banking subsidiaries | 151 | 12,516 |
| Long-term loans | 80,579 | 31,697 |
| Long-term trade receivables | 10,097 | 26,267 |
| Other long-term receivables | 5,946 | 9,729 |
| **Total long-term accounts receivable neither past due, nor impaired** | **96,773** | **80,209** |

Management experience indicates that long-term loans and other long-term receivables are of lower credit quality than accounts receivable of Group's banking subsidiaries and long-term trade receivables.

As of 31 December 2008 and 2007, trade receivables that would otherwise be past due whose terms have been renegotiated, amounted to RR 7,548 and RR 9,974, respectively.

Movements of the Group provision for impairment of accounts receivable are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2008** | **2007** |
| Impairment provision at the beginning of the year | 17,507 | 15,085 |
| Impairment provision accrued* | 6,361 | 3,261 |
| Release of previously created provision* | - | (839) |
| Acquisition of subsidiaries | 2,181 | - |
| Gazprombank Group deconsolidation (see Note 34) | (8,746) | - |
| **Impairment provision at the end of the year** | **17,303** | **17,507** |

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

(In millions of Russian Roubles)

## 15 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Equity instruments at fair value: | | |
| RAO UES of Russia | - | 143,407 |
| OAO WGC-2*, OAO WGC-6* and other energy assets (net of provision for impairment of RR 7,545 and RR nil as of 31 December 2008 and 2007, respectively) | 14,567 | 46,693 |
| Other (net of provision for impairment of RR 1,468 and RR 2,209 as of 31 December 2008 and 2007, respectively) | 13,850 | 63,192 |
| Debt instruments (net of provision for impairment of RR nil and RR 258 as of 31 December 2008 and 2007, respectively) | 19,769 | 2,918 |
| | **48,186** | **256,210** |

* Investment in OAO WGC-2 and OAO WGC-6 are presented within available-for-sales financial statements as of 31 December 2007. The Group held a 10.49% interest in the share capital of RAO UES of Russia as of 31 December 2007. 1 July 2008 as a result of the reorganization of RAO UES of Russia the Group obtained interest in certain energy and power generation companies including OAO WGC-2 and OAO WGC-6 which are both consolidated from 1 July 2008 (see Note 33).

The fair value of the majority of the Group's equity instruments was determined on the basis of market quotations.

| **Movements in long-term available-for-sale assets** | Year ended 31 December 2008 | Year ended 31 December 2007 |
|---|---|---|
| Balance at the beginning of the year | 256,210 | 150,874 |
| Decrease in fair value recognized in equity (see Note 21) | (77,952) | - |
| Increase in fair value recognized in equity | - | 21,201 |
| Purchased available-for-sale assets | 5,627 | 90,199 |
| Consolidation of OAO WGC-2 and OAO WGC-6 (see Note 33) | (89,577) | - |
| Gazprombank Group deconsolidation (see Note 34) | (20,437) | - |
| Reclassification of investment in OAO Beltransgaz (see Note 13) | (16,156) | - |
| Available-for-sale assets disposed | (997) | (5,700) |
| Impairment on available-for-sale assets | (8,532) | (364) |
| **Balance at the end of the year** | **48,186** | **256,210** |

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.

None of the financial assets that are fully performing have been renegotiated in the reporting period.

## 16 OTHER NON-CURRENT ASSETS

Included within other non-current assets is VAT recoverable related to assets under construction totalling RR 49,560 and RR 24,135 as of 31 December 2008 and 2007, respectively.

Included within other non-current assets as of 31 December 2007 is the fair value of the call option with ENI S.p.A. to acquire its 20% interest in OAO Gazprom Neft (see Note 40) in the amount of RR 50,738. The fair value of this option is RR nil as of 31 December 2008.

Other non current assets include net pension assets in the amount of RR 243,982 as of 31 December 2008 and 31 December 2007 (see Note 23).

(In millions of Russian Roubles)

## 17 ACCOUNTS PAYABLE AND ACCRUED CHARGES

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| **Financial liabilities** | | |
| Trade payables | 210,858 | 144,532 |
| Accounts payable for acquisition of property, plant and equipment | 111,483 | 82,890 |
| Liabilities of Group's banking subsidiaries | 24,344 | 195,227 |
| Other payables | 94,819 | 49,970 |
| | 441,504 | 472,619 |
| **Non-financial liabilities** | | |
| Advances received | 24,025 | 10,009 |
| Accruals and deferred income | 1,228 | 2,838 |
| | 25,253 | 12,847 |
| | **466,757** | **485,466** |

Liabilities of Group's banking subsidiaries represent amounts due to the bank's customers with terms at commercial rates ranging from 0.01% to 8.5% per annum and from 0.9% to 8.0% per annum as of 31 December 2008 and 2007, respectively.

For the years ended 31 December 2008 and 2007 approximately 5% and 8% of the Group's settlements of accounts payable and accrued charges were made by non-cash settlements.

Trade payables of RR 16,364 and RR 41,243 were denominated in foreign currency, mainly the US dollar and Euro, as of 31 December 2008 and 2007, respectively. Book values of accounts payable approximate their fair value.

## 18 OTHER TAXES PAYABLE

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| VAT | 20,134 | 17,000 |
| Natural resources production tax | 10,593 | 16,595 |
| Excise tax | 3,131 | 3,626 |
| Property tax | 7,395 | 5,258 |
| Tax penalties and interest | 151 | 1,955 |
| Other taxes | 9,342 | 6,274 |
| | 50,746 | 50,708 |
| Less: long-term portion of restructured tax liabilities | (124) | (178) |
| | **50,622** | **50,530** |

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

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Short-term borrowings: | | |
| RR denominated borrowings | 90,770 | 129,331 |
| Foreign currency denominated borrowings | 102,851 | 100,596 |
| | 193,621 | 229,927 |
| Current portion of long-term borrowings (see Note 20) | 239,019 | 274,143 |
| | **432,640** | **504,070** |

Short-term RR denominated borrowings had average interest rates ranging from 9.6% to 18.0% and from 7.0% to 10.5% for the years ended 31 December 2008 and 2007, respectively. Short-term foreign currency denominated borrowings had average interest rates ranging from 3.2% to 8.5% and from 4.4% to 8.9% for the years ended 31 December 2008 and 2007, respectively.

**(In millions of Russian Roubles)**

## 19 SHORT-TERM BORROWINGS AND PROMISSORY NOTES AND CURRENT PORTION OF LONG-TERM BORROWINGS (continued)

As of 31 December 2008 and 2007, respectively, short-term borrowings include RR 59,484 and RR 176,716 of short-term borrowings of bank subsidiaries.

The Group's short-term promissory notes payable had average interest rates ranging from 0% to 13.1% and from 5.7% to 7.2% for the years ended 31 December 2008 and 2007, respectively.

Fair values approximate the carrying value of these liabilities.

## 20 LONG-TERM BORROWINGS AND PROMISSORY NOTES

| | Currency | Final Maturity | 31 December 2008 | 31 December 2007 |
|---|---|---|---|---|
| Long-term borrowings payable to: | | | | |
| Credit Suisse International | JPY | 2018 | 58,654 | - |
| ABN AMRO Bank N.V. | US dollar | 2013 | 53,065 | 44,334 |
| Loan participation notes issued in October 2007[1] | Euro | 2018 | 52,628 | 43,651 |
| Loan participation notes issued in June 2007[1] | GBP | 2013 | 47,201 | 39,435 |
| ABN AMRO Bank N.V.[2] | US dollar | 2012 | 44,245 | 49,614 |
| Loan participation notes issued in May 2005[1] | Euro | 2015 | 42,861 | 37,165 |
| Loan participation notes issued in September 2003[1] | Euro | 2010 | 42,291 | 36,668 |
| Loan participation notes issued in December 2005[1] | Euro | 2012 | 41,557 | 36,033 |
| Calyon Credit Agricole CIB[2] | US dollar | 2010 | 41,183 | 54,289 |
| Loan participation notes issued in November 2006[1] | US dollar | 2016 | 39,930 | 33,360 |
| Loan participation notes issued in March 2007[1] | US dollar | 2022 | 38,982 | 32,568 |
| Loan participation notes issued in August 2007[1] | US dollar | 2037 | 37,729 | 31,521 |
| Loan participation notes issued in April 2004[1] | US dollar | 2034 | 35,789 | 29,900 |
| Loan participation notes issued in October 2006[1] | Euro | 2014 | 33,706 | 29,225 |
| Loan participation notes issued in April 2008[1] | US dollar | 2018 | 32,903 | - |
| Structured export notes issued in July 2004[3] | US dollar | 2020 | 30,451 | 28,645 |
| WestLB AG[2] | US dollar | 2013 | 29,760 | - |
| Loan participation notes issued in June 2007[1] | Euro | 2014 | 29,273 | 25,382 |
| Deutsche Bank AG | US dollar | 2014 | 25,553 | 29,618 |
| Loan participation notes issued in November 2006[1] | Euro | 2017 | 21,552 | 18,685 |
| Salomon Brothers AG | US dollar | 2009 | 20,975 | 17,524 |
| Loan participation notes issued in March 2007[1] | Euro | 2017 | 20,906 | 18,127 |
| Dresdner Bank AG[2] | US dollar | 2010 | 18,558 | 23,283 |
| ABN AMRO Bank N.V.[2] | US dollar | 2010 | 18,535 | 24,429 |
| Credit Suisse International | Euro | 2009 | 16,680 | 14,467 |
| Salomon Brothers AG | US dollar | 2009 | 15,436 | 12,903 |
| Credit Suisse International | US dollar | 2017 | 15,414 | 12,877 |
| Loan participation notes issued in July 2008[1] | US dollar | 2013 | 15,107 | - |
| Credit Suisse International | US dollar | 2009 | 14,712 | 12,292 |
| Commerzbank AG[2] | US dollar | 2010 | 12,358 | - |
| Loan participation notes issued in April 2008[1] | US dollar | 2013 | 11,944 | - |
| OOO Aragon[4] | Euro | 2010 | 11,397 | 9,882 |

**(In millions of Russian Roubles)**

## 7 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

| | Currency | Final Maturity | 31 December 2008 | 2007 |
|---|---|---|---|---|
| Credit Suisse International | Euro | 2010 | 10,418 | 9,036 |
| Credit Suisse International | Euro | 2009 | 8,466 | 7,246 |
| Deutsche Bank AG | US dollar | 2011 | 8,455 | 8,718 |
| Loan participation notes issued in November 2007[1] | JPY | 2012 | 7,729 | 6,457 |
| OAO Bank of Moscow | Rouble | 2010 | 7,529 | - |
| OAO Gazprombank | Rouble | 2012 | 7,508 | - |
| BNP Paribas SA[2] | US dollar | 2009 | 5,946 | 4,913 |
| Credit Suisse International | US dollar | 2009 | 5,894 | 4,931 |
| Russian bonds issued in July 2007[5] | Rouble | 2010 | 5,192 | - |
| Russian bonds issued in February 2005 | Rouble | 2010 | 5,158 | 5,155 |
| Loan participation notes issued in November 2007[1] | JPY | 2010 | 5,151 | 4,303 |
| Russian bonds issued in February 2007 | Rouble | 2014 | 5,132 | 5,130 |
| Russian bonds issued in August 2005 | Rouble | 2009 | 5,100 | 5,137 |
| ABN AMRO Bank N.V.[2] | US dollar | 2013 | 5,068 | - |
| Russian bonds issued in November 2006 | Rouble | 2011 | 5,059 | 5,058 |
| Russian bonds issued in November 2006 | Rouble | 2009 | 5,058 | 5,056 |
| Russian bonds issued in September 2006[6] | Rouble | 2011 | 4,908 | 5,107 |
| Citibank International PLC | US dollar | 2009 | 4,803 | 10,908 |
| Russian bonds issued in March 2006[6] | Rouble | 2016 | 4,731 | 5,129 |
| Wintershall Holding AG[4] | Euro | 2010 | 4,686 | 4,063 |
| Gazstream S.A. | US dollar | 2010 | 4,638 | 5,673 |
| Gazstream S.A. | US dollar | 2012 | 4,565 | 4,768 |
| JP Morgan Chase bank | US dollar | 2011 | 4,429 | 4,942 |
| European bank for reconstruction and development | Rouble | 2012 | 3,878 | 4,321 |
| OAO Gazprombank | US dollar | 2010 | 2,978 | - |
| Russian bonds issued in April 2007[5] | Rouble | 2012 | 2,915 | - |
| European bank for reconstruction and development | Rouble | 2018 | 2,792 | 2,914 |
| OAO Bank of Moscow | Rouble | 2009 | 2,533 | - |
| ABN AMRO Bank N.V. | US dollar | 2009 | 2,453 | 4,105 |
| Citibank International PLC[2] | US dollar | 2008 | - | 43,051 |
| Credit Suisse International | US dollar | 2008 | - | 40,250 |
| Eurobonds issued in September 2005[7] | US dollar | 2015 | - | 24,768 |
| Eurobonds issued in October 2003[7] | US dollar | 2008 | - | 18,607 |
| Eurobonds issued in April 2007[7] | US dollar | 2010 | - | 17,145 |
| Dresdner Bank AG[2] | US dollar | 2008 | - | 15,516 |
| Depfa Investment Bank Ltd.[2] | US dollar | 2008 | - | 12,590 |
| Sumitomo Mitsui Banking Corporation Europe Limited[2] | US dollar | 2008 | - | 12,326 |
| Credit Suisse International | US dollar | 2008 | - | 12,041 |
| JP Morgan Chase bank | Rouble | 2008 | - | 11,833 |
| Eurobonds issued in February 2007[7] | Rouble | 2010 | - | 10,219 |
| Eurobonds issued in January 2004[7] | US dollar | 2008 | - | 7,443 |
| Credit Suisse International | Euro | 2008 | - | 7,279 |
| Wintershall Holding AG[4] | Rouble | 2008 | - | 6,975 |
| ABN AMRO Bank N.V.[2] | US dollar | 2008 | - | 5,674 |
| Liberty Hampshire Corporation | Rouble | 2008 | - | 5,067 |
| ABN AMRO Bank N.V.[2] | US dollar | 2008 | - | 4,450 |
| Mannesmann (Deutsche Bank AG)[2] | Euro | 2008 | - | 3,011 |

**(In millions of Russian Roubles)**

## 8 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

| | Currency | Final Maturity | 31 December 2008 | 31 December 2007 |
|---|---|---|---|---|
| Wintershall Holding AG[4] | Rouble | 2008 | - | 3,000 |
| Other long-term borrowings | Various | Various | 37,742 | 125,359 |
| Total long-term borrowings | | | 1,162,249 | 1,255,551 |
| Less: current portion of long-term borrowings | | | (239,019) | (274,143) |
| | | | **923,230** | **981,408** |

[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] Loans were obtained for development of Yuzhno-Russkoye oil and gas field.
[5] Issuers of these notes are OAO WGC-2 and OAO WGC-6.
[6] Issuer of these bonds is OAO Mosenergo.
[7] Issuer of these bonds is OAO Gazprombank.

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| RR denominated borrowings (including current portion of RR 20,487 and RR 29,373 as of 31 December 2008 and 2007, respectively) | 95,035 | 165,146 |
| Foreign currency denominated borrowings (including current portion of RR 218,532 and RR 244,770 as of 31 December 2008 and 2007, respectively) | 1,067,214 | 1,090,405 |
| | **1,162,249** | **1,255,551** |

| Due for repayment: | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Between one and two years | 181,615 | 188,171 |
| Between two and five years | 267,294 | 277,673 |
| After five years | 474,321 | 515,564 |
| | **923,230** | **981,408** |

Long-term borrowings include fixed rate loans with a carrying value of RR 914,237 and RR 869,194 and fair value of RR 749,630 and RR 871,253 as of 31 December 2008 and 2007, respectively. All other long-term borrowings have variable interest rates generally linked to LIBOR, and the difference between carrying value of these liabilities and its fair value is not significant.

As of 31 December 2008 and 31 December 2007 long-term borrowings include RR 18,442 (including current portion of RR nil) and RR 162,259 (including current portion of RR 20,611), relating to the operations of Group's banking subsidiaries, respectively. As of 31 December 2007 long-term borrowings of the banking subsidiaries were mainly presented by OAO Gazprombank. The bank was deconsolidated in June 2008 (see Note 34).

As of 31 December 2008 and 2007, 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 2008 | 31 December 2007 |
|---|---|---|
| Fixed rate RR denominated long-term borrowings | 7.30% | 7.29% |
| Fixed rate foreign currency denominated long-term borrowings | 6.59% | 5.96% |
| Variable rate foreign currency denominated long-term borrowings | 4.64% | 6.34% |

As of 31 December 2008 and 2007 long-term borrowings of RR 30,451 and RR 28,645, respectively, inclusive of current portion of long-term borrowings, are secured by revenues from export supplies of gas to Western Europe.

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

The Group's long-term promissory notes payable had average interest rates ranging from 0% to 11.4% and from 6.9% to 8.3% for the years ended 31 December 2008 and 2007, respectively.

(In millions of Russian Roubles)

## 21 PROFIT TAX

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

| Notes | | Year ended 31 December 2008 | 2007 |
|---|---|---|---|
| | Profit before profit tax | 1,031,632 | 924,204 |
| | Theoretical tax charge calculated at applicable tax rates | (247,592) | (223,422) |
| | Tax effect of items which are not deductible or assessable for taxation purposes | | |
| | Non-deductible expenses incl.: | (71,084) | (48,019) |
| 13,35 | Non-deductable expenses on impairment loss for associated undertakings and jointly controlled entities | (6,764) | - |
| 16 | Non-deductable expenses from call option fair value change | (12,177) | - |
| | Non-taxable income from sale of subsidiary | - | 13,818 |
| 16 | Non-taxable income from call option fair value change | - | 12,177 |
| | Non-taxable income from Gazfund deconsolidation | - | 10,726 |
| | Other non-taxable income | 6,194 | 5,501 |
| | Effect of reduction in tax rate to 20% enacted in 2008 with effect from 1 January 2009 | 52,230 | - |
| | **Profit tax expense** | **(260,252)** | **(229,219)** |

Profit tax expense in the consolidated statement of income is stated net of RR 424 and RR 221 of tax attributable to gains arising on treasury shares transactions for the years ended 31 December 2008 and 2007, respectively.

In November 2008 the Federal Law on amendments to the Russian Tax Code enacted the decrease in corporate profit tax rate from 24% to 20%, effective from 1 January 2009. This tax rate was applied to determine the deferred tax liabilities as of 31 December 2008.

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the enacted from 1 January 2009 rate of 20% (for the year ended 31 December 2007: 24%).

| | 31 December 2008 | Effect from tax rate change | Differences recognition and reversals at 24% rate | 31 December 2007 | Differences recognition and reversals | 31 December 2006 |
|---|---|---|---|---|---|---|
| **Tax effects of taxable temporary differences:** | | | | | | |
| Property, plant and equipment | (248,706) | 49,843 | (31,584) | (266,965) | (25,226) | (241,739) |
| Financial assets | (19,332) | 2,939 | 18,889 | (41,160) | (3,048) | (38,112) |
| Inventories | (1,821) | 364 | 1,816 | (4,001) | (3,812) | (189) |
| | **(269,859)** | **53,146** | **(10,879)** | **(312,126)** | **(32,086)** | **(280,040)** |
| **Tax effects of deductible temporary differences:** | | | | | | |
| Tax losses carry forward | 1,333 | (267) | 623 | 977 | (729) | 1,706 |
| Other deductible temporary differences | 3,247 | (649) | 1,100 | 2,796 | (30) | 2,826 |
| **Total net deferred tax liabilities** | **(265,279)** | **52,230** | **(9,156)** | **(308,353)** | **(32,845)** | **(275,508)** |

Taxable temporary differences recognized in 2008 include the effect of the acquisition of the controlling interest in OAO WGC-2 and OAO WGC-6 (see Note 33), including RR 29,136 related to property, plant and equipment.

As of 31 December 2007 the taxable temporary differences include differences related to fair value adjustment on RAO UES of Russia shares and other energy assets in the amount of RR 28,251. During six months ended 30 June 2008, differences of RR 18,846 were reversed due to decreases in fair value of RAO UES of Russia shares and other energy assets. Difference at the amount of RR 9,405 was reversed due to the exchange of interest in RAO UES of Russia for ownership interests in certain energy companies (see Note 33).

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 RR until 31 December 2002.

(In millions of Russian Roubles)

## 21 PROFIT TAX (continued)

From 1 January 2002, any revaluation of property, plant and equipment recorded in the statutory accounting records is not recorded in the tax accounting records and therefore has no impact on temporary differences.

In accordance with the tax legislation of the Russian Federation tax losses and current tax assets of a company of the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is separately determined for main activities, income from operations with securities and service activities. Tax losses arising from one type of activity can not be offset with taxable profit of other types of activity. Also, a deferred tax asset of one company (type of activity) of the Group can not be offset against a deferred tax liability of another company (type of activity). As of 31 December 2008 and 2007 deferred tax assets on temporary differences in the amount of RR 20,669 and RR 17,583, respectively, have not been recorded because it is not probable that sufficient taxable profit of the Group subsidiaries will be available to allow the benefit of that deferred tax asset to be utilised.

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 324,581 and RR 403,468 as of 31 December 2008 and 2007, 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.

## 22 FINANCIAL INSTRUMENTS

As of 31 December 2008 the Group had outstanding commodity contracts and foreign currencies at the market price at the date of maturity. The Group expects to settle these contracts in the normal course of business. These instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions.

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 balance sheet.

| | 31 December | | | |
|---|---|---|---|---|
| | 2008 | | 2007 | |
| | Notional principal equivalents | Fair value | Notional principal equivalents | Fair value |
| **Foreign exchange option contracts** | | | | |
| Call options written – foreign | - | - | (6,251) | (557) |
| Put options written – foreign | - | - | (553) | (1) |
| | - | - | **(6,804)** | **(558)** |
| **Foreign exchange forward contracts** | | | | |
| Assets foreign | 54,475 | 6,051 | 160,193 | 5,176 |
| Assets domestic | - | - | 75,799 | 1,864 |
| Liabilities foreign | (12,974) | (339) | (86,984) | (1,231) |
| Liabilities domestic | - | - | (90,803) | (1,507) |
| | **41,501** | **5,712** | **58,205** | **4,302** |
| **Securities option contracts** | | | | |
| Put options written – foreign | - | - | (40,967) | (4,666) |
| | - | - | **(40,967)** | **(4,666)** |
| **Securities forward contracts** | | | | |
| Assets – foreign | - | - | 3,008 | 2 |
| Assets – domestic | - | - | 3,976 | 101 |
| Liabilities – foreign | - | - | (1,473) | (373) |
| Liabilities – domestic | - | - | (3,443) | (11) |
| | - | - | **2,068** | **(281)** |
| **Swap contracts** | | | | |
| Interest swap contracts (assets) – foreign | 14,690 | 2,138 | - | - |
| Currency swap contracts (assets) – foreign | 988 | 105 | 5,063 | 199 |
| Interest swap contracts (liabilities) – foreign | (2,756) | (44) | (12,528) | - |
| | **12,922** | **2,199** | **(7,465)** | **199** |
| **Emission allowances** | | | | |
| Assets | 2,360 | 632 | - | - |
| Liabilities | (5,495) | (542) | - | - |
| | **(3,135)** | **90** | - | - |
| **Commodity contracts** | | | | |
| Commodity contracts assets | 321,816 | 46,947 | 103,119 | 16,265 |
| Commodity contracts liabilities | (199,784) | (46,177) | (150,161) | (19,813) |
| | **122,032** | **770** | **(47,042)** | **(3,548)** |

(In millions of Russian Roubles)

## 22 FINANCIAL INSTRUMENTS (continued)

The maturities of all derivative financial instruments are less than one year, and the majority of the contracts have maturities less than one month. All deals are fixed price contracts and are settled in the normal course of business.

The Group enters into contracts to receive and deliver commodities in accordance with its expected purchase, sale or usage requirements. Such contracts are not considered derivatives and are not included in the table above.

## 23 PROVISIONS FOR LIABILITIES AND CHARGES

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Provision for environmental liabilities | 50,550 | 51,604 |
| Provision for pension obligations | 28,128 | 20,738 |
| Other | 7,129 | 6,871 |
| | **85,807** | **79,213** |

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 2008 | 31 December 2007 |
|---|---|---|
| Discount rate (nominal) | 8.6% | 6.6% |
| Future salary and pension increases (nominal) | 6.5% | 6.8% |
| Turnover ratio p.a. | 4.2% | 5% |
| 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 2008 and 2007.

The Group expects a 6% return on the plan assets as at 31 December 2008 and 5% return as at 31 December 2007.

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

| | 31 December 2008 | | 31 December 2007 | |
|---|---|---|---|---|
| | **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 | (182,590) | (49,687) | (207,880) | (55,344) |
| Fair value of plan assets | 257,046 | - | 583,221 | - |
| | **74,456** | **(49,687)** | **375,341** | **(55,344)** |
| Unrecognised net actuarial losses/(gains) | 169,526 | (1,535) | 123,749 | 8,745 |
| Unrecognised past service costs | - | 23,094 | - | 25,861 |
| Unrecognised plan assets above the limit | - | - | (255,108) | - |
| **Net balance asset / (liability)** | **243,982** | **(28,128)** | **243,982** | **(20,738)** |

The net pension assets of RR 243,982 related to benefits provided by the pension plan NPF Gazfund is included within other non-current assets of RR 411,837 in the consolidated balance sheet.

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

| | Year ended 31 December 2008 | Year ended 31 December 2007 |
|---|---|---|
| Current service cost | 8,766 | 10,829 |
| Interest on obligation | 17,053 | 15,475 |
| Expected return on plan assets | (29,161) | (22,131) |
| Net actuarial losses recognized for the year | 273,178 | 6,855 |
| Past service cost | 1,650 | 1,767 |
| Effect of asset restriction | (255,108) | 23,435 |
| **Total operating expenses included in staff costs** | **16,378** | **36,230** |

**(In millions of Russian Roubles)**

## 23 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The total amount of benefits paid for 2008 and 2007 were equal to RR 5,078 and RR 3,524, respectively.

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

| | 31 December 2008 | | 31 December 2007 | |
|---|---|---|---|---|
| | Funded benefits - provided through NPF Gazfund | Unfunded liabilities - other benefits | Funded benefits - provided through NPF Gazfund | Unfunded liabilities - other benefits |
| **Opening defined benefit obligation** | **207,880** | **55,344** | **193,352** | **45,279** |
| Service cost | 5,979 | 2,787 | 7,704 | 3,252 |
| Interest cost | 13,504 | 3,549 | 12,580 | 3,076 |
| Actuarial (gains)/losses | (40,620) | (11,717) | (2,490) | 4,335 |
| Benefits paid | (4,153) | (1,422) | (3,266) | (598) |
| Consolidation of OAO WGC-2 and OAO WGC-6 (see Note 33) | - | 1,146 | - | - |
| **Closing defined benefit obligation** | **182,590** | **49,687** | **207,880** | **55,344** |

Changes in the plan assets are as follows:

| | 31 December 2008 | | 31 December 2007 | |
|---|---|---|---|---|
| | Funded benefits - provided through NPF Gazfund | Unfunded liabilities - other benefits | Funded benefits - provided through NPF Gazfund | Unfunded liabilities - other benefits |
| **Opening fair value of plan assets** | **583,221** | **-** | **-** | **-** |
| Recognition of plan assets as at 31 March 2007 | - | - | 590,156 | - |
| Expected return | 29,161 | - | 22,131 | - |
| Actuarial (losses)/gains | (358,806) | - | (33,514) | - |
| Contributions by employer | 7,623 | 924 | 7,714 | 258 |
| Benefits paid | (4,153) | (924) | (3,266) | (258) |
| **Closing fair value of plan assets** | **257,046** | **-** | **583,221** | **-** |

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

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Equities | 58% | 79% |
| Other assets | 42% | 21% |
| | **100%** | **100%** |

For the year ended 31 December 2008 actual return on plan assets was a loss of RR 329,644, caused by the change of the fair value of plan assets.

Funded status of the plan:

| | 31 December | |
|---|---|---|
| | 2008 | 2007 |
| Defined benefit obligation | (182,590) | (207,880) |
| Plan assets | 257,046 | 583,221 |
| **Surplus** | **74,456** | **375,341** |

For 2008 and 2007, experience adjustments on plan assets amounted to RR 358,806 and RR 33,514 loss respectively, and experience adjustments on plan liabilities amounted to RR 124,592 and RR 43,259 loss respectively.

## 24 EQUITY

### Share capital

Share capital authorised, issued and paid in totals RR 325,194 as of 31 December 2008 and 2007 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Roubles.

### Dividends

In 2008, OAO Gazprom accrued and paid dividends in the nominal amount of 2.66 Roubles per share for the year ended 31 December 2007. In 2007, OAO Gazprom accrued and paid dividends in the nominal amount of 2.54 Roubles per share for the year ended 31 December 2006.

### Treasury shares

As of 31 December 2008 and 2007, subsidiaries of OAO Gazprom held 30 million and 66 million of the ordinary shares of OAO Gazprom, respectively. Shares of the Group held by the subsidiaries represent 0.1% and 0.3% of OAO Gazprom shares as of 31 December 2008 and 2007, respectively. The Group management controls the voting rights of these shares.

As of 31 December 2007 treasury shares include 50 million of Gazprom shares recognized under a put option written by the Group in November 2007 with a strike price of USD 16.38 per share. Financial liabilities recognized under this put option amounted to RR 18,234 as of 31 December 2007 and were included in "Other non-current liabilities" in the consolidated balance sheet. These treasury shares were held by Gazprombank Group which was deconsolidated from June 2008 (see Note 34).

### 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 44,545 and RR 25,325 as of 31 December 2008 and 2007, 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 2,519 and RR 3,897 have been transferred to governmental authorities during the years ended 31 December 2008 and 2007, 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 2008 year, the statutory profit of the parent company was RR 173,022. 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 2008 | 2007 |
|---|---|---|
| Gas sales (including excise tax and custom duties, net of VAT) to customers in: | | |
| Russian Federation | 479,387 | 399,452 |
| Former Soviet Union (excluding Russian Federation) | 381,902 | 273,550 |
| Europe and other countries | 1,866,933 | 1,161,549 |
| Gross sales of gas | 2,728,222 | 1,834,551 |
| Excise tax | (81) | (96) |
| Customs duties | (461,740) | (306,752) |
| Net sales of gas | 2,266,401 | 1,527,703 |
| Sales of refined products to customers in: | | |
| Russian Federation | 378,182 | 300,046 |
| Former Soviet Union (excluding Russian Federation) | 44,980 | 42,181 |
| Europe and other countries | 229,794 | 182,989 |
| Total sales of refined products | 652,956 | 525,216 |
| Sales of crude oil and gas condensate to customers in: | | |
| Russian Federation | 27,577 | 31,024 |
| Former Soviet Union (excluding Russian Federation) | 26,570 | 19,586 |
| Europe and other countries | 160,808 | 117,148 |
| Sales of crude oil and gas condensate | 214,955 | 167,758 |
| Electric and heat energy sales: | | |
| Russian Federation | 131,965 | 35,251 |
| Former Soviet Union (excluding Russian Federation) | 2,370 | 1,773 |
| Europe and other countries | 62,897 | 12,534 |
| Total electric and heat energy sales | 197,232 | 49,558 |
| Gas transportation sales: | | |
| Russian Federation | 70,080 | 41,252 |
| Former Soviet Union (excluding Russian Federation) | 605 | 488 |
| Europe and other countries | - | - |
| Total gas transportation sales | 70,685 | 41,740 |
| Other revenues: | | |
| Russian Federation | 99,194 | 99,419 |
| Former Soviet Union (excluding Russian Federation) | 7,685 | 6,021 |
| Europe and other countries | 9,852 | 5,830 |
| Total other revenue | 116,731 | 111,270 |
| **Total sales** | **3,518,960** | **2,423,245** |

(In millions of Russian Roubles)

## 26 OPERATING EXPENSES

| | Year ended 31 December | |
|---|---|---|
| | **2008** | **2007** |
| Purchased oil and gas | 696,274 | 382,054 |
| Taxes other than on income | 258,971 | 229,771 |
| Staff costs | 240,607 | 248,894 |
| Depreciation | 195,016 | 183,577 |
| Transit of gas, oil and refined products | 185,269 | 152,093 |
| Repairs and maintenance | 152,234 | 118,058 |
| Cost of goods for resale, including refined products | 132,801 | 56,643 |
| Materials | 90,722 | 94,520 |
| Electricity and heating expenses | 48,691 | 44,901 |
| Research and development | 19,952 | 15,486 |
| Social expenses | 18,668 | 16,343 |
| Rental expenses | 15,178 | 13,568 |
| Insurance expenses | 14,637 | 12,950 |
| Processing services | 10,055 | 10,090 |
| Transportation services | 7,485 | 6,675 |
| Other operating expenses | 73,130 | 128,136 |
| **Total operating expenses** | **2,159,690** | **1,713,759** |

Staff costs include RR 16,378 and RR 36,230 of expenses associated with pension obligations (see Note 23) for the years ended 31 December 2008 and 2007, respectively.

Gas purchase expenses included within purchased oil and gas amounted to RR 538,680 and RR 299,465 for the years ended 31 December 2008 and 2007, respectively.

Taxes other than on income consist of:

| | Year ended 31 December | |
|---|---|---|
| | **2008** | **2007** |
| Natural resources production tax | 188,494 | 165,097 |
| Property tax | 27,781 | 21,638 |
| Other taxes | 42,696 | 43,036 |
| | **258,971** | **229,771** |

## 27 FINANCE INCOME AND EXPENSES

| | Year ended 31 December | |
|---|---|---|
| | **2008** | **2007** |
| Exchange gains | 118,746 | 82,936 |
| Interest income | 46,822 | 75,394 |
| Gains on and extinguishment of restructured liabilities | 35 | 1,050 |
| **Total finance income** | **165,603** | **159,380** |

| | Year ended 31 December | |
|---|---|---|
| | **2008** | **2007** |
| Exchange losses | 281,269 | 55,598 |
| Interest expense | 59,910 | 76,975 |
| **Total finance expenses** | **341,179** | **132,573** |

(In millions of Russian Roubles)

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

| | Year ended 31 December | |
|---|---|---|
| | 2008 | 2007 |
| RAR net profit for the period per consolidated statutory accounts | 552,859 | 543,800 |
| Effects of IFRS adjustments: | | |
| Gain on NPF Gazfund deconsolidation | - | 44,692 |
| Reclassification of revaluation of RAO UES of Russia and other energy assets (including deferred tax effect of RR nil and RR 3,554, respectively) | 49,411 | (18,168) |
| Elimination of loss (gain) of OAO NOVATEK shares revaluation | 80,768 | (9,553) |
| Effect of profit tax rate change | 52,230 | - |
| Differences in depreciation | 133,348 | 78,564 |
| Reversal of goodwill depreciation | 27,950 | 25,347 |
| Loan interest capitalized | 26,465 | 19,661 |
| Impairment provision for property, plant and equipment | (51,031) | - |
| Impairment provision for associated undertakings and jointly controlled entities | (28,181) | - |
| Other impairment provisions and other provisions | (19,010) | (39,668) |
| Fair value adjustment for currency options | - | (1,320) |
| Write-off of research and development expenses capitalized for RAR purposes | (4,317) | (3,402) |
| Fair value adjustment on commodity contracts | (75) | (2,534) |
| (Loss)/Gain from change in fair value of call option | (50,738) | 50,738 |
| Other effects | 1,701 | 6,828 |
| **IFRS profit for the year** | **771,380** | **694,985** |

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

Earnings per share have been calculated by dividing the profit, attributable to equity shareholders 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 23.4 billion weighted average shares outstanding for the years ended 31 December 2008 and 2007.

There are no dilutive financial instruments outstanding.

(In millions of Russian Roubles)

## 30 NET CASH PROVIDED BY OPERATING ACTIVITIES

| | Year ended 31 December 2008 | 2007 |
|---|---|---|
| Profit before profit tax | 1,031,632 | 924,204 |
| **Adjustments to profit before profit tax** | | |
| Depreciation | 195,016 | 183,577 |
| Charge for impairment provisions and other provisions | 115,342 | 43,938 |
| Net unrealised foreign exchange loss (gains) | 162,523 | (27,338) |
| Interest expense | 59,910 | 76,975 |
| Gains on and extinguishment of restructured liabilities | (35) | (1,050) |
| Losses on disposal of property, plant and equipment | 1,858 | 9,988 |
| Interest income | (46,822) | (75,394) |
| Gain on disposal of available-for-sale financial assets | (14,326) | (25,102) |
| Derivatives gain | (10,762) | (1,723) |
| Share of net loss (income) from associated undertakings and jointly controlled entities | 16,686 | (24,234) |
| Total effect of adjustments | 479,390 | 159,637 |
| Increase in long-term assets | (36,341) | (62,042) |
| (Decrease) increase in long-term liabilities | (3,246) | 987 |
| Gain from sale of interest in subsidiary | - | (50,853) |
| Loss (gain) from change in fair value of call option | 50,738 | (50,738) |
| Non-cash additions and disposals of property, plant and equipment and other long-term financial assets | (76,144) | (116,450) |
| Deconsolidation of NPF Gazfund | - | (44,692) |
| | 1,446,029 | 760,053 |
| **Changes in working capital** | | |
| Increase in accounts receivable and prepayments | (245,820) | (21,463) |
| Increase in inventories | (42,047) | (27,277) |
| Decrease in other current assets | 3,131 | 2,227 |
| Increase in accounts payable and accrued charges, excluding interest, dividends and capital construction | 67,551 | 70,884 |
| Increase in taxes payable (other than profit tax) | 80,772 | 66,873 |
| Decrease (increase) in available-for-sale financial assets and financial assets held for trading | 15,707 | (58,752) |
| Total effect of working capital changes | (120,706) | 32,492 |
| Profit tax paid | (308,772) | (194,037) |
| **Net cash provided by operating activities** | **1,016,551** | **598,508** |

Total taxes paid in cash for the years 2008 and 2007:

| | Year ended 31 December 2008 | 2007 |
|---|---|---|
| Customs duties | 699,253 | 429,991 |
| Profit tax | 308,772 | 194,037 |
| Natural resources production tax | 196,815 | 163,596 |
| VAT | 76,273 | 68,988 |
| Property tax | 30,908 | 23,801 |
| Unified social tax | 29,304 | 31,546 |
| Personal income tax | 28,876 | 26,693 |
| Excise | 22,958 | 23,573 |
| Other | 23,290 | 18,005 |
| **Total taxes paid** | **1,416,449** | **980,230** |

(In millions of Russian Roubles)

## 31 SUBSIDIARY UNDERTAKINGS

*Principal subsidiaries*

| Subsidiary undertaking | Location | % of share capital as of 31 December* 2008 | 2007 |
|---|---|---|---|
| ZAO ArmRosgazprom | Armenia | 76 | 53 |
| OOO Arsenal** | Russia | - | 100 |
| OOO Aura-Media** | Russia | - | 100 |
| OOO Aviapredpriyatie Gazpromavia | Russia | 100 | 100 |
| OAO Azot (Kemerovo)** | Russia | - | 75 |
| Benton Solutions Inc.** | Virgin Islands | - | 100 |
| OOO Burgaz | Russia | 100 | 100 |
| OAO Daltransgaz | Russia | 73 | - |
| Dolby International Holdings Ltd.*** | Virgin Islands | 100 | 100 |
| Ecofran Marketing Consulting and Communications Services Company Ltd.** | Cyprus | - | 100 |
| OOO Elion** | Russia | - | 100 |
| OOO Faktoring-Finance | Russia | 90 | 90 |
| Ferenco Investment Ltd.*** | Cyprus | 100 | 100 |
| ZAO Gazenergoprombank | Russia | 73 | - |
| OOO Gazflot | Russia | 100 | 100 |
| OOO Gazoenergeticheskaya Companiya | Russia | 100 | 100 |
| OOO Gazprom dobycha Astrakhan | Russia | 100 | 100 |
| OOO Gazprom dobycha Krasnoyarsk (OOO Krasnoyarskgazdobycha) | 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 shelf | Russia | 100 | - |
| OOO Gazprom dobycha Urengoy | Russia | 100 | 100 |
| OOO Gazprom dobycha Yamburg | Russia | 100 | 100 |
| OOO Gazprom export | Russia | 100 | 100 |
| Gazprom Finance B.V. | Netherlands | 100 | 100 |
| GAZPROM Germania GmbH | Germany | 100 | 100 |
| Gazprom Global LNG Ltd. | United Kingdom | 100 | - |
| OOO Gazprom invest Vostok | Russia | 100 | 100 |
| ZAO Gazprom invest Yug (ZAO Gazpromstroyengineering) | Russia | 100 | 100 |
| OOO Gazprom invest Zapad | Russia | 100 | 100 |
| OOO Gazprom investholding (OOO Gazprominvestholding) | Russia | 100 | 100 |
| OOO Gazprom komplektacya (OOO Gazkomplektimpex) | Russia | 100 | 100 |
| Gazprom Libyen Verwaltungs GmbH | Germany | 100 | 100 |
| Gazprom Marketing and Trading Ltd. | United Kingdom | 100 | 100 |
| OAO Gazprom Neft | Russia | 76 | 76 |
| ZAO Gazprom neft Orenburg (ZAO Stimul) | Russia | 100 | 100 |
| Gazprom Neft Trading GmbH*** | Austria | 100 | 100 |
| Gazprom Netherlands B.V. | Netherlands | 100 | 100 |
| OOO Gazprom Pererabotka | Russia | 100 | 100 |
| OOO Gazprom PKhG | Russia | 100 | 100 |
| OOO Gazprom podzemremont Orenburg (OOO Gazprom yugpodzemremont) | Russia | 100 | 100 |
| OOO Gazprom podzemremont Urengoy (OOO Gazprom severpodzemremont) | Russia | 100 | 100 |
| Gazprom Sakhalin Holding B.V. | Netherlands | 100 | 100 |

(In millions of Russian Roubles)

**31 SUBSIDIARY UNDERTAKINGS (continued)**

| Subsidiary undertaking | Location | % of share capital as of 31 December* 2008 | 2007 |
|---|---|---|---|
| OOO Gazprom transgas Ekaterinburg | Russia | 100 | 100 |
| OOO Gazprom transgas Kazan | 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 Gazprom transgas Saratov | Russia | 100 | 100 |
| OOO Gazprom transgas Surgut | Russia | 100 | 100 |
| OOO Gazprom transgas Tchaikovsky | Russia | 100 | 100 |
| OOO Gazprom transgas Tomsk | Russia | 100 | 100 |
| OOO Gazprom transgas Ufa | Russia | 100 | 100 |
| OOO Gazprom transgas Ukhta | Russia | 100 | 100 |
| OOO Gazprom transgas Volgograd | Russia | 100 | 100 |
| OOO Gazprom transgas Yugorsk | Russia | 100 | 100 |
| OOO Gazprom transgas Kuban | Russia | 100 | 100 |
| OOO Gazrpom transgas St. Petersburg | Russia | 100 | 100 |
| OOO Gazprom transgaz Stavropol (OOO Kavkaztransgaz) | Russia | 100 | 100 |
| OOO Gazprom tsentrremont | Russia | 100 | - |
| OOO Gazprombank-Invest** | Russia | - | 99 |
| AB GPB-Ipoteka (ZAO)** | Russia | - | 99 |
| OAO Gazprom-Media** | Russia | - | 100 |
| OOO Gazprom-Media Holding** | Russia | - | 100 |
| OOO Gazpromenergo | Russia | 100 | 100 |
| OOO Gazpromneft-Centr (OOO Sibneft-AZS Service)*** | Russia | 100 | 100 |
| OOO Gazpromneftfinans*** | Russia | 100 | 100 |
| OOO Gazpromneft-Khantos*** | Russia | 100 | 100 |
| ZAO Gazpromneft-Kuzbass (ZAO Kuzbassnefteproduct)*** | Russia | 100 | 100 |
| OAO Gazpromneft-Noyabrskneftegaz (OAO Sibneft-Noyabrskneftegaz)*** | Russia | 100 | 100 |
| OAO Gazpromneft-Omskiy NPZ (OAO Sibneft-Omskiy NPZ)*** | Russia | 100 | 100 |
| OAO Gazpromneft-Omsk (OAO Sibneft-Omsknefteproduct)*** | Russia | 100 | 100 |
| ZAO Gazpromneft-Severo-Zapad (ZAO Sibneft-Severo-Zapad)*** | Russia | 100 | 100 |
| OOO Gazpromneft-Vostok*** | Russia | 100 | 100 |
| OOO GazpromPurInvest | Russia | 100 | 100 |
| OAO Gazpromregiongaz | Russia | 100 | 100 |
| OOO Gazpromtrans | Russia | 100 | 100 |
| OAO Gazpromtrubinvest | Russia | 99 | 99 |
| OOO Gaztorgpromstroy | Russia | 100 | 100 |
| OOO Georesurs | Russia | 100 | - |
| ZAO Gerosgaz | Russia | 51 | 51 |
| Gregory Trading S.A.*** | Virgin Islands | 100 | 100 |
| OOO Jester** | Russia | - | 100 |
| Jones Resources Ltd.*** | Virgin Islands | 100 | 100 |
| ZAO Kaunasskaya power station | Lithuania | 99 | 99 |
| OOO Kommerts Investments** | Russia | - | 100 |
| OAO Krasnodargazstroy | Russia | - | 51 |
| OAO Krasnoyarskgazprom | Russia | 75 | 75 |
| OOO Kubangazprom | Russia | 100 | 100 |

(In millions of Russian Roubles)

## 31 SUBSIDIARY UNDERTAKINGS (continued)

| Subsidiary undertaking | Location | % of share capital as of 31 December* 2008 | 2007 |
|---|---|---|---|
| Leadville Investments Ltd.** | Cyprus | - | 100 |
| OAO Lengazspecstroy | Russia | - | 63 |
| OOO Mezhregiongaz | Russia | 100 | 100 |
| OAO Mineralnie udobreniya** | Russia | - | 51 |
| OAO Mosenergo | Russia | 53 | 53 |
| ZAO Neftehim-Invest** | Russia | - | 100 |
| OOO NK Sibneft-Yugra*** | Russia | 99 | 99 |
| OOO Novourengoysky GCC | Russia | 100 | 100 |
| OAO NTV-PLUS** | Russia | - | 100 |
| OAO Obshestvenno-delovoy centr Okhta*** | Russia | 77 | 84 |
| ZAO Purgaz | Russia | 51 | 51 |
| OOO Regionalnaya finansovaya companiya** | Russia | - | 100 |
| OAO Regiongazholding | Russia | 56 | 56 |
| Richard Enterprises S.A.*** | Virgin Islands | 100 | 100 |
| ZAO Rosshelf | Russia | 57 | 57 |
| ZAO RSh-Centre | Russia | 99 | 99 |
| OAO Severneftegazprom**** | Russia | 75 | 75 |
| OOO Sevmorneftegaz | Russia | 100 | 100 |
| Sib Oil Trade Ltd.*** | Virgin Islands | 100 | 100 |
| OOO Sibneft-Chukotka*** | Russia | 100 | 100 |
| OAO AK Sibur** | Russia | - | 100 |
| OAO Sibur Holding** | Russia | - | 74 |
| OAO Sibur-Mineralnie udobrenia** | Russia | - | 100 |
| ZAO Sibur-Motors** | Russia | - | 100 |
| OAO Sibur-Neftekhim** | Russia | - | 100 |
| OAO Sibur-Russkiye shiny** | Russia | - | 100 |
| OAO Sibur-Tyumen** | Russia | - | 100 |
| OAO SiburTyumenGaz** | Russia | - | 100 |
| OAO Sobinbank | Russia | 100 | - |
| ZAO Speccisterni** | Russia | - | 100 |
| OAO Spetsgazavtotrans | Russia | 51 | 51 |
| OAO Telekompaniya NTV** | Russia | - | 100 |
| OAO Tomskgazprom | Russia | 100 | 100 |
| OOO Tomskneftekhim** | Russia | - | 100 |
| OAO Tsentrenergogaz | Russia | 62 | 62 |
| OAO Tsentrgaz | Russia | 100 | 100 |
| OOO VNIIGAZ | Russia | 100 | 100 |
| OAO Vostokgazprom | Russia | 99 | 99 |
| OAO WGC-2***** | Russia | 57 | - |
| OAO WGC-6***** | Russia | 60 | - |
| ZAO Yamalgazinvest | Russia | 100 | 100 |
| OAO Yaroslavsky shinniy zavod** | Russia | - | 88 |
| OOO Yugragazpererabotka** | Russia | - | 51 |
| OOO Zapolyarneft*** | Russia | 100 | 100 |
| OAO Zapsibgazprom | Russia | 77 | 77 |

(In millions of Russian Roubles)

## 31 SUBSIDIARY UNDERTAKINGS (continued)

| Subsidiary undertaking | Location | % of share capital as of 31 December* 2008 | 2007 |
|---|---|---|---|
| Zarubezhgaz Management und BeteiligungsGesellschaft mbH (ZMB Gmbh) | Germany | 100 | 100 |
| OAO Zavod Benzol** | Russia | - | 100 |
| ZGG Cayman Holding Ltd. | Cayman Islands | 100 | 100 |
| ZGG Cayman Ltd. | Cayman Islands | 100 | 100 |
| ZMB (Schweiz) AG | Switzerland | 100 | 100 |

* Cumulative share of Group companies in charter capital of investments
** Subsidiaries of OAO Gazprombank, OAO Sibur-Holding and Gazprom-Media Group (deconsolidated since June 2008, Note 34)
*** Subsidiaries of OAO Gazprom neft
**** Group's voting shares
***** Controlling interest acquired in 2008 (see Note 33)

## 32 MINORITY INTEREST

| | Year ended 31 December 2008 | 2007 |
|---|---|---|
| Minority interest at the beginning of the year | 362,308 | 161,362 |
| Minority interest share of net profit of subsidiary undertakings | 28,452 | 36,947 |
| Gazprombank Group deconsolidation (see Note 34) | (148,035) | - |
| Dividends | (6,227) | (9,320) |
| Translation difference | 1,120 | - |
| Minority interest as a result of acquisitions | 70,366 | 173,319 |
| **Minority interest at the end of the year** | **307,984** | **362,308** |

## 33 ACQUISITION OF THE CONTROLLING INTEREST IN OAO WGC-2 and OAO WGC-6

As of 1 July 2008, the Group completed the exchange of its ownership interest in RAO UES of Russia for ownership interests in certain companies, including controlling interests in OAO WGC-2 and OAO WGC-6 and minor interest in other power entities. The Group's controlling interest of 57.3% in OAO WGC-2 and 60.1% in OAO WGC-6 have been accumulated through the payment of cash of RR 16 billion for 12.2% interest in OAO WGC-2 in October 2007 and RR 21 billion for 17.1% interest in OAO WGC-6 in December 2007, respectively and the exchange of RAO UES of Russia shares with a fair value of RR 53 billion in July 2008. The fair value of the RAO UES of Russia shares exchanged for the OAO WGC-2 and OAO WGC-6 shares as of 1 July 2008 was determined by reference to the quoted market prices of the OAO WGC-2 and OAO WGC-6 shares received on 1 July 2008, the date the Group obtained control over OAO WGC-2 and OAO WGC-6.

The Group accounted for the interest owned prior to July 2008 in OAO WGC-2 and OAO WGC-6 as available-for-sale financial assets.

In accordance with IFRS 3 "Business Combinations", the Group recognized the acquired assets and liabilities based upon their fair values. In these financial statements, management revised the preliminary assessment disclosed in interim condensed financial information for the nine months, ended 30 September 2008. Revisions made to the preliminary assessment applied in interim financial information were reflected as of the acquisition date. The Group does not anticipate any material revisions to this revised assessment.

The total purchase consideration primarily includes the total cash paid of RR 37 billion and the fair value of the shares exchanged of RR 53 billion.

The carrying amounts before the acquisition date and recognized assets acquired and liabilities assumed as of the acquisition date are as follows:

(In millions of Russian Roubles)

## 33 ACQUISITION OF THE CONTROLLING INTEREST IN OAO WGC-2 and OAO WGC-6 (continued)

| | OAO WGC-2 and OAO WGC-6 Book value 01.07.2008 | Attributable fair value |
|---|---|---|
| Cash and cash equivalents | 1,556 | 1,556 |
| Accounts receivable and prepayments | 4,835 | 4,835 |
| Inventories | 6,434 | 6,434 |
| Other current assets | 13,969 | 13,969 |
| **Current assets** | **26,794** | **26,794** |
| Property, plant and equipment | 46,631 | 140,221 |
| Long-term accounts receivable and prepayments | 26,212 | 26,212 |
| Other non-current assets | 3,952 | 3,952 |
| **Non-current assets** | **76,795** | **170,385** |
| **Total assets** | **103,589** | **197,179** |
| Accounts payable and accrued charges | 11,048 | 11,048 |
| **Current liabilities** | **11,048** | **11,048** |
| Long-term borrowings | 7,756 | 7,756 |
| Deferred tax liabilities | 6,283 | 28,745 |
| Other non-current liabilities | 1,029 | 1,029 |
| **Non-current liabilities** | **15,068** | **37,530** |
| **Total liabilities** | **26,116** | **48,578** |
| **Net assets at control acquisition date** | **77,473** | **148,601** |
| **Fair value of net assets at acquisition date** | | **148,601** |
| Fair value of the Group's interest | | 86,970 |
| Purchase consideration | | 89,577 |
| **Goodwill** | | **2,607** |

The acquired entities contributed revenue of RR 41,248 and loss of RR 35,244 to the Group for the period from the date of acquisition to 31 December 2008. If the acquisition had occurred on 1 January 2008, the Group's revenue and profit for the year ended 31 December 2008 would have been RR 3,550,823 and RR 760,499, respectively.

The Group performed impairment testing of assets and liabilities of OAO WGC-2 and OAO WGC-6 as of December 31, 2008 and recorded an impairment loss of RR 44,119 for certain non-financial assets including goodwill of RR 2,607. The impairment loss was primarily due to the effects of fourth quarter 2008 revised projections indicating ownward revisions of projected sales volumes and increased discount rates (see Note 35).

(In millions of Russian Roubles)

## 34 DECONSOLIDATION OF GAZPROMBANK GROUP

As discussed in Note 4 the Group lost the ability to control the financial and operating policies of Gazprombank Group on 24 June 2008. At that date the bank and its subsidiaries were deconsolidated from the financial statements of the Group and the deconsolidation has resulted in the decrease/(increase) in the following line items of the consolidated balance sheet:

| | |
|---|---|
| **Current assets** | |
| Cash and cash equivalents | 47,242 |
| Restricted cash | 14,866 |
| Short-term financial assets | 88,277 |
| Accounts receivable and prepayments | 252,017 |
| Inventories | 21,432 |
| VAT recoverable | 8,763 |
| Other current assets | 32,602 |
| | 465,199 |
| **Non-current assets** | |
| Property, plant and equipment | 72,491 |
| Investments in associated undertakings and jointly controlled entities | 46,142 |
| Long-term accounts receivable and prepayments | 221,041 |
| Available-for-sale long-term financial assets | 20,437 |
| Other non-current assets | 15,080 |
| | 375,191 |
| Total assets | 840,390 |
| **Liabilities and equity** | |
| **Current liabilities** | |
| Accounts payable and accrued charges | 221,351 |
| Current profit tax payable | 195 |
| Other taxes payable | 6,100 |
| Short-term borrowings and current portion of long-term borrowings | 246,140 |
| Short-term promissory notes payable | 25,007 |
| | 498,793 |
| **Non-current liabilities** | |
| Long-term borrowings | 164,985 |
| Provisions for liabilities and charges | 1,421 |
| Deferred tax liabilities | (5,910) |
| Other non-current liabilities | 18,415 |
| | 178,911 |
| Total liabilities | 677,704 |
| **Equity** | |
| Treasury shares | (26,751) |
| Retained earnings and other reserves | - |
| | (26,751) |
| Minority interest | 148,035 |
| Total equity | 121,284 |
| Total liabilities and equity | 798,988 |
| **Recognition of investment in Gazprombank Group as investment in associated undertaking** | **41,402** |

The deconsolidation of Gazprombank Group did not have a material impact on the consolidated statement of income for the year ended 31 December 2008.

## 35 IMPAIRMENT AND OTHER PROVISIONS

The Group conducted an impairment test of its property plant and equipment, goodwill when applicable, investments in associated undertakings and other assets when there were indicators that these assets may be impaired. The recoverable amount used in the impairment tests has been determined on the basis of the projected cash flows and the value in use of such asset or cash-generating units.

For non financial assets, the Group conducted an impairment test of its cash-generating units, for which the values in use have been calculated as the present values of projected future cash flows discounted by the Group's weighted average cost of capital, as adjusted, where applicable, to take into account any specific risks of business operations related to the cash-generating units. The Group used discount rates ranging from 10 to 17%. The cash flow projections cover periods commensurate with the production cycles and expected lives of the respective assets. The Group used either steady or declining growth rates to extrapolate cash flows beyond the period, for which the Group usually prepares its budget. Based on the results of this test the Group recognized an impairment loss of RR 51,031 for power generating assets, including goodwill on the acquisition of OAO WGC-2 and OAO WGC-6 (see Note 33). The impairments were primarily triggered by the increase in discount rates, projected reduction in electricity consumption and expected oil and electricity prices.

Included in the impairment and other provisions are provisions for short-term and long-term accounts receivable in the amount of RR 42,057 and RR 1,348 for the years, ended December 31, 2008 and 2007 respectively and impairment provision for other investments in the amount of RR 2,726 and RR 1,422 for the years, ended December 31, 2008 and 2007.

For associated undertakings, where there was an indication that the carrying value of investments in associated undertakings might not be recoverable the Group conducted an impairment test of such investments as at December 31, 2008. The total impairment loss, included in share of net income (loss) of associated undertakings and jointly controlled entities of RR 28,181 related primarily due to projected decrease in crude oil and electricity consumption and prices and the increase in discount rates.

## 36 RELATED PARTIES

For the purpose of this consolidated financial information, 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.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding as of 31 December 2008 are detailed below.

### 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 2008 38.373% of OAO Gazprom issued shares were directly owned by the Government. Another 11.63% were owned by Government controlled entities. The Government does not prepare financial statements for public use. Following the General Meeting of Shareholders in June 2008, the 11 seats on the Board of Directors include six State representatives, three management representatives and two independent directors. Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

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

### Parties under control of the Government

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

As of and for the years ended 31 December 2008 and 2007, respectively, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

(In millions of Russian Roubles)

## 36 RELATED PARTIES (continued)

| Note | | As of 31 December 2008 | | Year ended 31 December 2008 | |
|---|---|---|---|---|---|
| | | Assets | Liabilities | Revenues | Expenses |
| | **Transactions and balances with the Government** | | | | |
| | Current profit tax | 30,518 | 6,774 | - | 307,094 |
| | Unified social tax | 558 | 1,075 | - | 30,460 |
| | VAT recoverable/payable | 199,990 | 20,134 | - | - |
| | Custom duties | 60,841 | - | - | - |
| 18 | Other taxes | 2,565 | 29,537 | - | 258,971 |
| | **Transactions and balances with other parties under control of the Government** | | | | |
| | Gas sales | - | - | 95,799 | - |
| | Electricity and heating sales | - | - | 78,151 | - |
| | Other services sales | - | - | 1,960 | - |
| | Accounts receivable | 4,211 | - | - | - |
| | Oil transportation expenses | - | - | - | 62,975 |
| | Accounts payable | - | 1,955 | - | - |
| | Loans | - | 14,610 | - | - |
| | Interest income/expense | - | - | 854 | 1,050 |
| | Short-term financial assets | 1,176 | - | - | - |
| | Available-for-sale long-term financial assets | 18,319 | - | - | - |

| Note | | As of 31 December 2007 | | Year ended 31 December 2007 | |
|---|---|---|---|---|---|
| | | Assets | Liabilities | Revenues | Expenses |
| | **Transactions and balances with the Government** | | | | |
| | Current profit tax | 9,378 | 23,033 | - | 218,266 |
| | Unified social tax | 583 | 1,319 | - | 31,206 |
| | VAT recoverable/payable | 190,560 | 17,000 | - | - |
| | Custom duties | 20,323 | - | - | - |
| 18 | Other taxes | 4,311 | 32,389 | - | 229,771 |
| | **Transactions and balances with other parties under control of the Government** | | | | |
| | Gas sales | - | - | 186,705 | - |
| | Electricity sales | - | - | 22,296 | - |
| | Other sales | - | - | 975 | |
| | Accounts receivable | 44,373 | - | - | - |
| | Oil transportation expenses | - | - | - | 44,542 |
| | Accounts payable | - | 21,328 | - | - |
| | Loans | - | 28,007 | - | - |
| | Interest income/expense | - | - | 1,262 | 1,413 |
| | Short-term financial assets | 15,030 | - | - | - |
| | Investments in associated undertakings and jointly controlled entities | - | - | - | 89 |
| | Available-for-sale long-term financial assets | 159,211 | - | - | - |

## 36 RELATED PARTIES (continued)

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

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

See consolidated statement of changes in equity for returns of social assets to governmental authorities during years ended 31 December 2008 and 2007. See Note 12 for net book values as of December 2008 and 2007 of social assets vested to the Group at privatisation.

See Note 37 for financial guarantees issued by the Group to the associated undertakings and jointly controlled entities.

**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 various Group companies, amounted to approximately RR 2,056 and RR 1,697 for the years ended 31 December 2008 and 2007, respectively. Such amounts include personal income tax and are net of unified social tax. 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.

The Group provided medical insurance and liability insurance for key management personnel. Voluntary medical insurance was RR 1 and RR 1 and liability insurance was RR 2 and nil for the years ended 31 December 2008 and 2007, respectively.

(In millions of Russian Roubles)

## 36 RELATED PARTIES (continued)

### Associated undertakings and jointly controlled entities

For the years ended 31 December 2008 and 2007 the Group had the following significant transactions with associated undertakings and jointly controlled entities:

| | Year ended 31 December | |
|---|---|---|
| | 2008 | 2007 |
| **Gas sales** | **Revenues** | |
| RosUkrEnergo AG | 230,093 | 157,438 |
| Wintershall Erdgas Handelshaus GmbH & Co.KG | 115,317 | 67,656 |
| ZAO Panrusgaz | 74,878 | 43,179 |
| OAO Beltransgaz** | 60,509 | - |
| Wintershall Gas GmbH & Co. KG | 56,092 | 41,251 |
| AO Gazum | 26,822 | 17,001 |
| Wintershall Erdgas Handelshaus Zug AG | 25,740 | 19,031 |
| Promgaz SPA | 14,864 | 8,003 |
| AO Overgaz Inc. | 14,088 | 8,101 |
| GWH – Gaz und Warenhandels GmbH | 10,336 | 6,082 |
| AO Lietuvos Dujos | 9,039 | 5,389 |
| AO Moldovagaz | 8,999 | 6,509 |
| AO Latvijas Gaze | 6,533 | 3,775 |
| AO Turusgaz | 5,733 | 3,100 |
| OAO TGC-1** | 5,492 | - |
| ZAO Gazprom YRGM Trading | 5,119 | 307 |
| OAO Mosenergo* | - | 19,566 |
| **Gas transportation sales** | | |
| RosUkrEnergo AG | 23,455 | 11,278 |
| OAO NOVATEK | 11,262 | 8,248 |
| ZAO Gazprom YRGM Trading | 7,217 | 486 |
| **Crude oil and refined product sales:** | | |
| OAO NGK Slavneft and its subsidiaries | 15,137 | 14,195 |
| **Gas refining services sales:** | | |
| TOO KazRosGaz | 3,735 | 3,303 |
| **Purchased gas** | **Expenses** | |
| RosUkrEnergo AG | 39,341 | 29,880 |
| ZAO Gazprom YRGM Trading | 23,901 | 1,425 |
| TOO KazRosGaz | 17,265 | 13,246 |
| OAO NOVATEK | 5,505 | 3,953 |
| **Gas transportation purchases** | | |
| SGT EuRoPol GAZ S.A. | 12,206 | 11,081 |
| OAO Beltransgaz** | 11,864 | - |
| Blue Stream Pipeline Company | 7,513 | 7,300 |
| **Crude oil and refined product purchases** | | |
| OAO NGK Slavneft and its subsidiaries | 79,511 | 64,198 |
| OAO Tomskneft VNK and its subsidiaries** | 32,958 | - |
| **Processing services purchases** | | |
| OAO NGK Slavneft and its subsidiaries | 5,816 | 5,013 |

* OAO Mosenergo is consolidated from the moment of acquisition of controlling interest in May 2007.
** Financial information reported from the date of investment made.

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 (except for that sold to RosUkrEnergo AG) under long-term contracts based on world commodity prices.

(In millions of Russian Roubles)

## 36 RELATED PARTIES (continued)

As of 31 December 2008 and 2007 the Group had the following significant balances with associated undertakings and jointly controlled entities:

| | As of 31 December 2008 | | As of 31 December 2007 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| **Short-term accounts receivable and prepayments** | | | | |
| RosUkrEnergo AG | 76,514 | - | 57,446 | - |
| Wintershall Gas GmbH & Co. KG | 13,888 | - | 14,833 | - |
| Wintershall Erdgas Handelshaus Zug AG | 11,925 | - | 12,439 | - |
| ZAO Panrusgaz | 11,341 | - | 6,583 | - |
| OAO Beltransgaz | 8,664 | - | - | - |
| AO Gazum | 4,322 | - | 2,868 | - |
| OAO NGK Slavneft and its subsidiaries | 4,313 | - | 2,516 | - |
| AO Moldovagaz* | 3,274 | - | 1,260 | - |
| OAO Salavatnefteorgsyntez | 2,493 | - | - | - |
| Wintershall Erdgas Handelshaus GmbH & Co.KG | 1,783 | - | 4,078 | - |
| OAO Sibur Holding and its subsidiaries | 1,589 | - | - | - |
| SGT EuRoPol GAZ S.A. | 1,295 | - | 1,105 | - |
| ZAO Gazprom YRGM Trading | 2,196 | - | - | - |
| OAO Gazprombank | 1,077 | - | - | - |
| **Cash balances in associated undertakings:** | | | | |
| OAO Gazprombank | 161,255 | - | - | - |
| **Long-term accounts receivable and prepayments** | | | | |
| Wintershall Gas GmbH & Co. KG | 11,721 | - | 10,163 | - |
| OAO Sibur Holding and its subsidiaries | 3,587 | - | - | - |
| SGT EuRoPol GAZ S.A. | 3,555 | - | 3,955 | - |
| RosUkrEnergo AG | - | - | 6,947 | - |
| **Long term promissory notes:** | | | | |
| OAO Gazprombank | 2,536 | - | - | - |
| **Short-term accounts payable** | | | | |
| Wintershall Gas GmbH & Co. KG | - | 9,239 | - | 3,245 |
| RosUkrEnergo AG | - | 9,176 | - | 2,001 |
| ZAO Gazprom YRGM Trading | - | 4,591 | - | - |
| SGT EuRoPol GAZ S.A. | - | 4,470 | - | 2,456 |
| OAO Sibur Holding and its subsidiaries | - | 2,756 | - | - |
| TOO KazRosGaz | - | 1,994 | - | 1,787 |
| OAO NGK Slavneft and its subsidiaries | - | 1,580 | - | 4,242 |
| OAO Beltransgaz | - | 1,351 | - | - |
| OAO NOVATEK | - | 1,111 | - | 375 |
| **Long-term accounts payable:** | | | | |
| OAO Sibur Holding and subsidiaries | - | 3,627 | - | - |
| **ST loans from associated undertakings:** | | | | |
| OAO Gazprombank | - | 7,875 | - | - |
| OAO Tomskneft VNK and its subsidiaries | - | 8,478 | - | - |
| Wintershall Erdgas Handelshaus GmbH & Co.KG | - | 2,344 | - | 1,770 |
| **LT Loans from associated undertaking:** | | | | |
| OAO Gazprombank | - | 9,513 | - | - |

* Net of impairment provision on accounts receivable in the amount of RR 37,125 and RR 27,821 as of 31 December 2008 and 2007, respectively.

Investments in associated undertakings and jointly controlled entities are disclosed in Note 12.

See Note 37 for financial guarantees issued by the Group on behalf of associated undertakings and jointly controlled entities.

(In millions of Russian Roubles)

## 37 COMMITMENTS AND CONTINGENCIES

**Financial guarantees**

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Outstanding guarantees issued on behalf of: | | |
| BSPC | 24,092 | 24,352 |
| MRK Energy DMCC | 6,959 | - |
| EM Interfinance Limited | 5,823 | - |
| Devere Capital International Limited | 5,691 | - |
| ZAO Achimgaz | 4,961 | 4,591 |
| Blackrock Capital Investments Limited | 4,934 | - |
| OAO Group E4 | 3,562 | - |
| Nord Stream AG | 2,536 | - |
| Gaztransit | 1,294 | 1,346 |
| DSL Assets International Limited | 888 | - |
| United Energy Investments Limited | 887 | - |
| Gazprom Libya B.V. | - | 4,467 |
| Other | 25,701 | 59,484 |
| | **87,328** | **94,240** |

Historically counterparties fulfilled their contractual obligations. The maximum exposure to credit risk in relation to financial guarantees is RR 87,328 and RR 94,240 as of 31 December 2008 and 2007, respectively.

Included in financial guarantees are amounts denominated in USD of USD 1,587 million and USD 1,348 million as of 31 December 2008 and 31 December 2007, 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 2008 and 31 December 2007, outstanding amounts of these loans were RR 23,052 (USD 785 million) and RR 23,652 (USD 964 million), respectively, which were guaranteed by the Group, pursuant to its obligations.

As of 31 December 2008 and 31 December 2007, BSPC also borrowed RR 1,040 (USD 35 million) and RR 700 (USD 29 million) of credit facilities, provided by Depfa Investment Bank Ltd., which were guaranteed by the Group.

In 2007 the Group provided a guarantee to Wintershall Vermogens-Verwaltungsgesellschaft mbH on behalf of ZAO Achimgaz as a security of loans received and used for additional financing of the pilot implementation of the project on the development of Achimsky deposits of the Urengoy field. The Group's liability with respect to loans is limited by 50% in accordance with the ownership interest in ZAO Achimgaz. As of 31 December 2008 and 31 December 2007 the above guarantee amounted to RR 4,961 (Euro 120 million) and RR 4,591 (Euro 128 million), respectively.

In January 2008 the Group provided a guarantee to Europipe GmbH, supplier of large-diameter steel pipes, on behalf of Nord Stream AG related to pipe supply contract for construction of Nord Stream pipeline. As of 31 December 2008, the above guarantee amounted to RR 2,536 (Euro 61 million).

In April 2008 the Group provided a guarantee to Credit Suisse International and National Reserve bank (OAO) on behalf of MRK Energy DMCC related to loan received by MRK Energy DMCC. The purpose of the loan is financing of construction of gas pipeline "Kudarsky pereval – Tskhinval" (South Ossetia). As of 31 December 2008 the outstanding amount of this guarantee was RR 6,959.

In 2006 the Group guaranteed loans issued by five financing entities (Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited). These companies were special purpose entities of Gazprombank Group, which beared risks, associated with the loans. Following the deconsolidation of Gazprombank Group and because the Group remains a guarantor, the guarantees provided by the Group are reported as guarantees to third parties. The guarantees amounted to RR 18,223 (USD 620 million) as of 31 December 2008.

## 37 COMMITMENTS AND CONTINGENCIES (continued)

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 2008, the outstanding amount of this guarantee was RR 3,562 (Euro 86 million).

Other guarantees of the Group included guarantees, issued by OAO Sobinbank to third parties in the amount of RR 8,267 as of 31 December 2008.

Other guarantees of the Group included guarantees mainly issued by OAO Gazprombank to third parties in the amount of RR 54,122 as of 31 December 2007. In January 2007, OAO Gazprombank provided guarantees to OAO Sberbank on behalf of OAO Sibneftegaz. As of 31 December 2007, the outstanding amount of these guarantees was RR 5,934.

In August 2007, OAO Gazprombank provided a guarantee to OAO LUKOIL-Nizhegorodnefteorgsintez on behalf of OAO Lukoil-NORSI-Invest. As of 31 December 2007, the outstanding amount was RR 5,308.

In 2007, OAO Gazprombank provided a guarantee to former owners of OAO Salavatnefteorgsyntez shares on behalf of ZAO Lider with respect to its purchase of interest in OAO Salavatnefteorgsyntez. As of 31 December 2007, the total outstanding amount was RR 16,525.

**Capital commitments**

In December 2008 the Board of Directors approved a RR 920 billion investment programme for 2009. 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 2008 no loss is expected to result from these long-term commitments.

## 38 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.

Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US Dollar (USD) exchange rate of the Central Bank of the Russian Federation ("CBRF") increased from RR 25.37 as of 1 October 2008 to RR 29.38 as of 31 December 2008.

The commodities market was also impacted by the latest events on the financial markets. The spot Free On Board price of Urals oil decreased from USD 91.15 as of 29 September 2008 to USD 41.83 as of 31 December 2008.

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.

## 38 OPERATING RISKS (continued)

### 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 2008 is appropriate and all of the Group's tax, currency and customs positions will be sustainable.

### Group changes

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

### Environmental matters

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

### Financial crisis and economic downturn

The ongoing global financial crisis has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial market, have also led to bank failures and bank rescues in the United States of America, Western Europe and in Russia. In this context, in 2008 the Group has also obtained shares in certain Russian banks.

The full extent of the impact of the ongoing financial crisis is difficult to foresee and the Group remains exposed to adverse changes that would result from the crisis. The availability of external funding in financial markets has significantly reduced since August 2007. Such circumstances affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions (see Note 40). The debtors of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their outstanding payables.

Deteriorating operating conditions for debtors have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets (see Note 35). Management has reflected their best estimates of expected future cash flows in their impairment assessments.

The net pension assets included into other non-current assets are also exposed to the decline in the market price of certain investments made by NPF Gazfund (see Note 23).

Management is unable to estimate reliably the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group’s business in the current circumstances.

The Group is exposed to deteriorating economic conditions resulting from general economic downturn, decline in demand for certain commodities and decline in oil prices. These new market conditions have an impact on medium term cash flow forecast and assessment of potential impairment of financial and non-financial assets. As of 31 December 2008 management has updated the Group’s medium and long-term cash-flow forecasts and impairment assessment (see Note 35).

**(In millions of Russian Roubles)**

## 39 FINANCIAL RISK FACTORS

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

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

**Market risk**

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

*(a) Foreign exchange risk*

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

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

| Notes | | Russian Rouble | US dollar | Euro | Other | Total |
|---|---|---|---|---|---|---|
| | **As of 31 December 2008** | | | | | |
| | **Financial assets** | | | | | |
| | **Current** | | | | | |
| | Cash and cash equivalents | 184,344 | 114,319 | 39,533 | 5,637 | 343,833 |
| | Short-term financial assets | 23,365 | - | 83 | - | 23,448 |
| 10 | Trade and other accounts receivable | 185,075 | 207,100 | 83,346 | 31,775 | 507,296 |
| | **Non-current** | | | | | |
| 14 | Long-term accounts receivable | 136,643 | 10,413 | 310 | - | 147,366 |
| | Available for sale long-term financial assets | 43,210 | - | 4,976 | - | 48,186 |
| | **Total financial assets** | **572,637** | **331,832** | **128,248** | **37,412** | **1,070,129** |
| | **Financial liabilities** | | | | | |
| | **Current** | | | | | |
| 17 | Accounts payable and accrued charges | 308,564 | 85,137 | 26,091 | 21,712 | 441,504 |
| | Short-term borrowings and current portion of long-term borrowings | 111,257 | 273,429 | 47,011 | 943 | 432,640 |
| | Short-term promissory notes payable | 8,052 | - | - | - | 8,052 |
| | **Non-current** | | | | | |
| | Long-term borrowings | 74,548 | 496,303 | 352,282 | 97 | 923,230 |
| | Long-term promissory notes payable | 1,718 | - | - | - | 1,718 |
| | **Total financial liabilities** | **504,139** | **854,869** | **425,384** | **22,752** | **1,807,144** |

(In millions of Russian Roubles)

## 39 FINANCIAL RISK FACTORS (continued)

| Notes | | Russian Rouble | US dollar | Euro | Other | Total |
|---|---|---|---|---|---|---|
| | **As of 31 December 2007** | | | | | |
| | **Financial assets** | | | | | |
| | **Current** | | | | | |
| | Cash and cash equivalents | 161,507 | 63,892 | 46,147 | 7,563 | 279,109 |
| | Short-term financial assets | 111,103 | 1,790 | 199 | 819 | 113,911 |
| 10 | Trade and other accounts receivable | 365,938 | 124,598 | 76,817 | 10,002 | 577,355 |
| | **Non-current** | | | | | |
| 14 | Long-term accounts receivable | 253,951 | 14,490 | 1,989 | - | 270,430 |
| | Available for sale long-term financial assets | 246,828 | 6,000 | 1,853 | 1,529 | 256,210 |
| | **Total financial assets** | **1,139,327** | **210,770** | **127,005** | **19,913** | **1,497,015** |
| | **Financial liabilities** | | | | | |
| | **Current** | | | | | |
| 17 | Accounts payable and accrued charges | 378,802 | 44,857 | 34,668 | 14,292 | 472,619 |
| | Short-term borrowings and current portion of long-term borrowings | 158,704 | 313,520 | 30,460 | 1,386 | 504,070 |
| | Short-term promissory notes payable | 21,455 | - | - | - | 21,455 |
| | **Non-current** | | | | | |
| | Long-term borrowings | 135,773 | 563,070 | 282,565 | - | 981,408 |
| | Long-term promissory notes payable | 3,555 | - | - | - | 3,555 |
| | **Total financial liabilities** | **698,289** | **921,447** | **347,693** | **15,678** | **1,983,107** |

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 2008, if the Russian Rouble had weakened by 30% against the US dollar with all other variables held constant, profit before tax would have been lower by RR 155,194, mainly as a result of foreign exchange gains on translation of US dollar-denominated trade receivables and foreign exchange losses on translation of US dollar-denominated borrowings. As of 31 December 2007, if the Russian Rouble had weakened by 10% against the US dollar with all other variables held constant, profit before tax would have been lower by RR 71,668. Profit is more sensitive to movement in RR/US dollar exchange rates in 2008 than in 2007 because of the increased amount of the US dollar denominated borrowings. The effect of a corresponding strengthening of the Russian Rouble against the US dollar is approximately equal and opposite.

As of 31 December 2008, if the Russian Rouble had weakened by 30% against Euro with all other variables held constant, profit before tax would have been lower by RR 90,552 mainly as a result of foreign exchange gains on translation of euro-denominated trade receivables and foreign exchange losses on translation of euro-denominated borrowings. As of 31 December 2007, if the Russian Rouble had weakened by 5% against Euro with all other variables held constant, profit before tax would have been lower by RR 11,127. The effect of a corresponding strengthening of the Russian Rouble against Euro is approximately equal and opposite.

**(In millions of Russian Roubles)**

## 39 FINANCIAL RISK FACTORS (continued)

*(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:

| **Long-term borrowings** | **31 December** | |
|---|---|---|
| | **2008** | **2007** |
| At fixed rate | 914,937 | 869,194 |
| At variable rate | 247,312 | 386,357 |
| **Total** | **1,162,249** | **1,255,551** |

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 2008 and 2007, the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

At 31 December 2008, if interest rates on US dollar and Euro denominated borrowings at these dates had been 2.0% higher with all other variables held constant, profit before tax would have been lower by RR 4,946 mainly as a result of higher interest expense on floating rate borrowings. At 31 December 2007, if interest rates on US dollar and Euro denominated borrowings at these dates had been 1.0% higher with all other variables held constant, profit before tax would have been lower by RR 3,864. The effect of a corresponding decrease in interest rate 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 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 (see Note 25). 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 investments held by the Group and classified on the consolidated balance sheet either as available for sale or at fair value through profit or loss (Note 15).

At 31 December 2008, if RTS equity index, which affects on the major part of Group's equity securities, had decreased by 60% with all other variables held constant, assuming the Group's equity instruments moved according to the historical correlation with the index, group's profit before tax for the year would have been RR 32,685 lower.

**(In millions of Russian Roubles)**

## 39 FINANCIAL RISK FACTORS (continued)

At 31 December 2007, if RTS equity index, which affects on the major part of Group's equity securities, had decreased on 40% with all other variables held constant, assuming the Group's equity instruments moved according to the historical correlation with the index, group's profit before tax for the year would have been RR 5,447 lower and other components of equity would have been RR 42,786 lower.

To manage price risk arising from other investments in equity securities, the Group's banking subsidiaries diversify their investment portfolios.

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 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. The Group's customer portfolio is diversified with a limited concentration.

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 | |
|---|---|---|
| | **2008** | **2007** |
| Cash and cash equivalents | 343,833 | 279,109 |
| Debt securities | 21,431 | 100,293 |
| Trade and other accounts receivable | 657,798 | 847,784 |
| Financial guarantees | 87,328 | 94,240 |
| **Total maximum exposure to credit risk** | **1,110,390** | **1,321,426** |

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, management aims to maintain flexibility in funding by keeping committed funds available. The Group liquidity is managed centrally. The management of the Group monitors the planned cash inflow and outflow.

The Group has 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.

(In millions of Russian Roubles)

## 39 FINANCIAL RISK FACTORS (continued)

However, the consequences of the ongoing global financial and economic crisis affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

In April 2009 the Group issued USD 2,250 million Loan Participation Notes due in 2019 at an interest rate 9.25% and CHF 500 million Loan Participation Notes due in 2011 at an interest rate 9% (see Note 40).

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.

| | 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 2008** | | | | | |
| Loans and borrowings | 245,676 | 186,964 | 181,615 | 267,294 | 474,321 |
| Trade and other payables | 428,872 | 12,632 | - | - | - |
| **As of 31 December 2007** | | | | | |
| Loans and borrowings | 312,881 | 191,189 | 241,754 | 356,741 | 662,374 |
| Trade and other payables | 456,855 | 15,764 | - | - | - |

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.

**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, sell certain non-core assets.

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

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

The net debt to adjusted EBITDA ratios at 31 December 2008 and 2007 were as follows:

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Total debt | 1,365, 764 | 1,510,666 |
| Less: cash and cash equivalents and certain restricted cash | (347,418) | (282,083) |
| Net debt | 1,018,346 | 1,228,583 |
| Adjusted EBITDA | 1,463,805 | 891,715 |
| **Net debt/Adjusted EBITDA ratio** | **0.70** | **1.38** |

## 39 FINANCIAL RISK FACTORS (continued)

OAO Gazprom presently has an investment grade credit ratings of BBB (stable outlook) by Standard & Poor's, Baa1 (positive) by Moody's Investor Services, and BBB (stable outlook) by Fitch Ratings. To maintain the credit ratings, management of the Group is enhancing efficiency of its business activities by internal restructuring and managerial improvement.

## 40 POST BALANCE SHEET EVENTS

### Significant deterioration in domestic currency

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. The Group has significant foreign currency denominated receivables and borrowings.

The official Russian Rouble ("RR") to US dollar ("USD") exchange rates as determined by the Central Bank of the Russian Federation increased from 29.38 to 33.55 in the period from 31 December 2008 to 29 April 2009. The official RR to Euro exchange rates as determined by the Central Bank of the Russian Federation increased from 41.44 to 43.66 in the period from 31 December 2008 to 29 April 2009.

### Investments

In February 2009 the Group acquired 51% interest in Naftna Industrija Srbije for Serbian dinars 38 billion (Euro 400 million) paid in cash.

In February 2009 the Group acquired 12.5% interest in OAO Beltransgas for USD 625 million. As a result the Group increased its interest in OAO Beltransgas up to 37.5%.

On 24 April 2009 the Group exercised the option agreement with ENI S.p.A. to purchase the additional 20% interest in OAO Gazprom Neft for USD 4.1 billion. In the result of this transaction the Group has increased its interest in OAO Gazprom Neft to 95.68%. The Group obtained credits from a group of banks in order to finance the transaction.

### Borrowings and loans

In January 2009 the Group obtained a credit from GK Vneshekonombank in the amount of USD 375 million due in 2010 at an interest rate of 10.75%.

In February 2009 the Group obtained a credit from Sberbank in the amount of USD 724 million due in 2010 at fixed interest rate of 10.25%.

In Mach 2009 the Group obtained the second tranche from GK Vneshekonombank in the amount of USD 150 million due in 2010 at an interest rate of LIBOR + 5% to refinance part of the loan from Calyon Credit Agricole CIB obtained in September and November 2007.

In Mach 2009 the Group obtained two loans from White Nights Finance B.V. in the amount of USD 500 million and USD 800 million due in 2014 at an interest rate of 10.5%.

In April 2009 the Group obtained a credit from Sberbank in the amount of USD 3,000 million due in 2014 at an interest rate of 10%.

In April 2009 the Group obtained a loan from OAO Russian Agricultural Bank in the amount of USD 600 million due in 2014 at an interest rate of 10%.

In April 2009 the Group obtained a loan from GPB Credit Risk Management S.A. in the amount of USD 600 million due in 2014 at an interest rate of 10%.

In April 2009 the Group issued USD 2,250 million Loan Participation Notes due in 2019 at an interest rate 9.25% and CHF 500 million Loan Participation Notes due in 2011 at an interest rate 9% under the USD 30,000 million Programme for the Issuance of Loan Participation Notes.

In April 2009 the Group issued bonds in the amount of RR 10,000 due in 2019 at an interest rate of 16.7% with two years buy-back put option.

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