OAO GAZPROM

IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2010

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 2010 and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and of 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 41 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

28 April 2011
Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit
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(In millions of Russian Roubles)

Notes		31 December 2010	31 December 2009
	Assets		
	Current assets		
8	Cash and cash equivalents	440,786	249,759
8	Restricted cash	3,669	4,872
9	Short-term financial assets	7,435	52,137
10	Accounts receivable and prepayments	757,900	846,725
11	Inventories	325,739	286,719
	VAT recoverable	158,390	139,718
	Other current assets	171,976	107,044
		1,865,895	1,686,974
	Non-current assets		
12	Property, plant and equipment	5,486,429	4,899,223
13	Investments in associated undertakings and jointly controlled entities	757,157	794,705
14	Long-term accounts receivable and prepayments	436,432	413,309
15	Available-for-sale long-term financial assets	191,417	106,658
16	Other non-current assets	498,663	467,659
		7,370,098	6,681,554
	Total assets	9,235,993	8,368,528
	Liabilities and equity		
	Current liabilities		
17	Accounts payable and accrued charges	702,640	502,075
	Current profit tax payable	45,649	37,267
18	Other taxes payable	71,920	71,934
19	Short-term borrowings and current portion of long-term borrowings	190,845	424,855
19	Short-term promissory notes payable	207	11,761
		1,011,261	1,047,892
	Non-current liabilities		
20	Long-term borrowings	1,124,395	1,184,457
20	Long-term promissory notes payable	-	4,592
23	Provisions for liabilities and charges	200,040	143,591
21	Deferred tax liabilities	333,143	321,524
	Other non-current liabilities	30,793	17,151
		1,688,371	1,671,315
	Total liabilities	2,699,632	2,719,207
	Equity		
24	Share capital	325,194	325,194
24	Treasury shares	(103,986)	(104,204)
24	Retained earnings and other reserves	6,028,543	5,105,525
		6,249,751	5,326,515
32	Non-controlling interest	286,610	322,806
	Total equity	6,536,361	5,649,321
	Total liabilities and equity	9,235,993	8,368,528

A.B. Miller
Chairman of the Management Committee
28 april 2011

E.A. Vasilieva
Chief Accountant
28 april 2011

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

OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010
(In millions of Russian Roubles)

Notes		Year ended 31 December 2010	2009
25	Sales	3,597,054	2,991,001
5	Net gain from trading activity	6,256	4,171
26	Operating expenses	(2,440,777)	(2,092,832)
	Impairment provision and other provisions	(48,711)	(45,428)
	Operating profit	**1,113,822**	**856,912**
34	Purchase of non-controlling interest in OAO Gazprom neft	-	13,865
40	Gain from disposal of interest in OAO NOVATEK	77,375	-
38	Gain from swap of assets transaction	-	105,470
27	Finance income	171,841	375,799
27	Finance expense	(169,147)	(441,487)
13	Share of net income of associated undertakings and jointly controlled entities	76,520	62,557
	Gains on disposal of available-for-sale financial assets	3,292	6,319
	Profit before profit tax	**1,273,703**	**979,435**
	Current profit tax expense	(249,387)	(182,255)
	Deferred profit tax expense	(26,323)	(3,387)
21	Profit tax expense	(275,710)	(185,642)
	Profit for the year	**997,993**	**793,793**
	Other comprehensive income		
	Gains arising from change in fair value of available-for-sale financial assets, net of tax	18,904	32,193
	Share of other comprehensive income of associated undertakings and jointly controlled entities	4,100	7,098
	Translation differences	(9,407)	1,704
	Revaluation of equity interest	-	9,911
	Other comprehensive income for the year, net of tax	**13,597**	**50,906**
	Total comprehensive income for the year	**1,011,590**	**844,699**
	Profit attributable to:		
	owners of OAO Gazprom	968,557	779,585
32	non-controlling interest	29,436	14,208
		997,993	**793,793**
	Total comprehensive income attributable to:		
	owners of OAO Gazprom	981,280	835,182
	non-controlling interest	30,310	9,517
		1,011,590	**844,699**
29	**Basic and diluted earnings per share for profit attributable to the owners of OAO Gazprom (in Roubles)**	**42.20**	**33.18**

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OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010
(In millions of Russian Roubles)

Notes		Year ended 31 December 2010	2009
	Operating activities		
30	**Net cash provided by operating activities**	**1,460,116**	**897,154**
	Investing activities		
12	Capital expenditures	(1,042,642)	(795,640)
	Net change in loans made	(9,113)	(15,131)
	Interest received	13,233	32,036
12	Interest paid and capitalised	(62,392)	(45,516)
	Acquisition of subsidiaries, net of cash acquired	(73,696)	(74,100)
39	Decrease of cash and cash equivalents from deconsolidation of banking subsidiaries	(32,504)	-
34	Purchase of non-controlling interest in OAO Gazprom neft	-	(138,527)
13	Investment in associated undertakings and jointly controlled entities	(32,817)	(37,148)
36	Proceeds from sales of interest in subsidiaries	34,540	2,904
40	Proceeds from disposal of interest in OAO NOVATEK	57,462	-
13	Proceeds from associated undertakings and jointly controlled entities	93,894	77,611
	Net change of long-term available-for-sale financial assets	317	2,034
	Change in other long-term financial assets	3,411	(1,634)
	Net cash used for investing activities	**(1,050,307)**	**(993,111)**
	Financing activities		
20	Proceeds from long-term borrowings	223,753	572,828
20	Repayment of long-term borrowings (including current portion)	(316,042)	(408,252)
	Net repayment of promissory notes	(812)	(3,122)
19	Net repayment of short-term borrowings	(30,294)	(87,611)
24	Dividends paid	(55,106)	(16,733)
	Interest paid	(33,428)	(58,794)
24	Sales (purchases) of treasury shares	218	(58)
8	Change in restricted cash	(673)	(1,125)
	Net cash used for financing activities	**(212,384)**	**(2,867)**
	Effect of exchange rate changes on cash and cash equivalents	(6,398)	4,750
	Increase (decrease) in cash and cash equivalents	**191,027**	**(94,074)**
	Cash and cash equivalents, at the beginning of the reporting year	249,759	343,833
	Cash and cash equivalents, at the end of the reporting year	**440,786**	**249,759**

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OAO GAZPROM
IFRS CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010
(In millions of Russian Roubles)

Notes		Number of shares outstanding (billions)	Attributable to owners of OAO Gazprom: Share capital	Treasury shares	Retained earnings and other reserves	Total	Non-controlling interest	Total equity
	Balance as of 31 December 2008	23.6	325,194	(597)	4,280,518	4,605,115	307,984	4,913,099
	Profit for the year		-	-	779,585	779,585	14,208	793,793
	Other comprehensive income:							
	Gains arising from change in fair value of available-for-sale financial assets, net of tax		-	-	32,088	32,088	105	32,193
	Share of other comprehensive income of associated undertakings and jointly controlled entities		-	-	7,098	7,098	-	7,098
24	Translation differences		-	-	6,500	6,500	(4,796)	1,704
	Revaluation of equity interest		-	-	9,911	9,911	-	9,911
	Total comprehensive income for the year ended 31 December 2009		-	-	835,182	835,182	9,517	844,699
24	Return of social assets to governmental authorities		-	-	(1,647)	(1,647)	-	(1,647)
34	Purchase of non-controlling interest in OAO Gazprom neft		-	-	-	-	(152,392)	(152,392)
32	Non-controlling interest in subsidiaries acquired		-	-	-	-	159,139	159,139
24	Net treasury shares transactions	(0.7)	-	(103,607)	-	(103,607)	-	(103,607)
24	Dividends		-	-	(8,528)	(8,528)	(1,442)	(9,970)
	Balance as of 31 December 2009	22.9	325,194	(104,204)	5,105,525	5,326,515	322,806	5,649,321
	Profit for the year		-	-	968,557	968,557	29,436	997,993
	Other comprehensive income:							
	Gains arising from change in fair value of available-for-sale financial assets, net of tax		-	-	18,904	18,904	-	18,904
	Share of other comprehensive income of associated undertakings and jointly controlled entities		-	-	4,100	4,100	-	4,100
24	Translation differences		-	-	(10,281)	(10,281)	874	(9,407)
	Total comprehensive income for the year ended 31 December 2010		-	-	981,280	981,280	30,310	1,011,590
32	Disposal of controlling interest in subsidiaries		-	-	-	-	(44,701)	(44,701)
32	Change in non-controlling interest in subsidiaries		-	-	(2,499)	(2,499)	(20,695)	(23,194)
24	Return of social assets to governmental authorities		-	-	(756)	(756)	-	(756)
24	Net treasury shares transactions	0.1	-	218	-	218	-	218
24	Dividends		-	-	(55,007)	(55,007)	(1,110)	(56,117)
	Balance as of 31 December 2010	23.0	325,194	(103,986)	6,028,543	6,249,751	286,610	6,536,361

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28 april 2011

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28 april 2011

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1 NATURE OF OPERATIONS

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

The Group is involved in the following principal activities:

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

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

The weighted average number of employees during 2010 and 2009 was 393 thousand and 386 thousand, respectively.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and changes, which can occur frequently.

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

3 BASIS OF PRESENTATION

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

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

4 SCOPE OF CONSOLIDATION

As described in Note 5, these financial statements consolidate subsidiaries, associated undertakings and jointly controlled entities of the Group. Significant changes in the Group's structure in the 2010 and 2009 are described below.

In September 2009 the Group acquired a 51% interest in OOO SeverEnergiya and obtained control over OOO SeverEnergiya. In November 2010 the Group sold its entire 51% controlling interest in OOO SeverEnergiya to the OOO Yamal razvitie – jointly controlled entity which is owned on a fifty-fifty basis by the Group (OAO Gazprom Neft) and OAO Novatek (see Note 36).

In August 2010 the reorganization in the form of the merger of ZAO Gazenergoprombank to OAO AB Rossiya was finalized. As a result of the reorganization the Group received a non-controlling interest in OAO AB Rossiya (see Note 39).

4 SCOPE OF CONSOLIDATION (continued)

In the period from April to June 2009 the Group acquired 54.71% of the ordinary shares of Sibir Energy plc and obtained control over Sibir Energy plc. In May 2010 the Group acquired additional 25.66% of the ordinary shares of Sibir Energy plc. In July 2010 the Group sold 3.02% of the ordinary shares of Sibir Energy plc to OAO Central Fuel Company which is controlled by the Government of Moscow. As a result of these transactions the Group’s interest in Sibir Energy plc equals to 77.35% (see Note 35).

In December 2009 the Group completed the series of transactions and accumulated 51.8% of ordinary shares of OAO TGC-1 and obtained control over OAO TGC-1 (see Note 37).

In February 2009 the Group acquired a 51% interest in Naftna Industrija Srbije and obtained control over Naftna Industrija Srbije (see Note 33).

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Group accounting

Changes in accounting policy

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010. IFRS 3 (revised) “Business combinations”, and consequential amendments to IAS 27 “Consolidated and separate financial statements”, IAS 28 “Investments in associates”, and IAS 31 “Interests in joint ventures”, are effective prospectively to 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 continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs are expensed. The revised standard was applied to all acquisitions of controlling interests in 2010.

IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised within the profit and losses of the consolidated statement of comprehensive income. IAS 27 (revised) has had no significant impact on the current period, as there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity though there were transactions with non-controlling interests.

The group has changed its accounting policy and applied it prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to the amounts previously recognised in the financial statements.

Subsidiary undertakings

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The acquisition method of accounting is used to account for the acquisition of subsidiaries, including those entities and businesses that are under common control. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition-related costs are expensed as incurred. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

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

Goodwill and non-controlling interest

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

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

Associated undertakings, jointly controlled entities and joint ventures

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

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

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

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

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

5.2 Financial instruments

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

Accounting for financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

original or modified terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

Fair value disclosure

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

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

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

5.3 Derivative financial instruments

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

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

Sale and purchase transactions of gas, oil, oil products and other goods and which are not physically settled or can be net settled and are not entered into for the purpose of receipt or delivery of non-financial item in accordance with the Group's expected purchase, sale or usage requirement are accounted for as derivative financial instruments in accordance with IAS 39 "Financial instruments: recognition and measurement". These instruments are considered as held for trading and related gains or losses are recorded within the profit and loss section of the consolidated statement of comprehensive income.

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

5.4 Non derivative financial assets

The Group classifies its financial assets in the following categories:

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

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

(c) loans and receivables.

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

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

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

There were no material financial assets designated at fair value through profit or loss at inception as of 31 December 2010 and 2009.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Available-for-sale financial assets

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

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

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

(c) Loans and receivables

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

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

Impairment of financial assets

At each balance sheet date the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income to profit or loss for the year. The impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment was recognised. For financial assets measured at amortized cost and available-for-sale financial assets which represent debt instruments, the reversal is recognised in profit or loss. For available-for-sale financial assets which represent equity instruments, the reversal is recognised directly in other comprehensive income. Impairment losses relating to assets recognised at cost cannot be reversed.

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.5 Options on purchase or sale of financial assets

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

5.6 Cash and cash equivalents and restricted cash

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

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

5.7 Value added tax

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

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

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

5.8 Natural resources production tax

Natural resources production tax on hydrocarbons, including natural gas and crude oil, is due on the basis of quantities of natural resources extracted. In particular NRPT for natural gas is defined as an amount of volume produced per fixed tax rate (RR 147 per mcm). NRPT for crude oil is defined as an amount of volume produced per fixed tax rate (RR 419 per ton) adjusted depending on the monthly average market prices of the Urals blend and the RR/USD exchange rate for the preceding month. Ultimate amount of the NRPT on crude oil depends also on the depletion and geographic location of the oil field. NRPT on gas condensate is defined as a fixed percentage from the value of the extracted mineral resource. Natural resources production tax is accrued as a tax on production and recorded within operating expenses.

5.9 Customs duties

The export of hydrocarbons outside of the Customs union, including natural gas and crude oil, is subject to export customs duties. In particular, export of natural gas outside the boundaries of the Customs union, which includes the Russian Federation, Belarus and Kazakhstan, is subject to a fixed 30% export customs duty rate levied on the customs value of the exported natural gas. Export of crude oil and oil products outside of the Customs union is also subject to the export customs duties set on a monthly basis by the Russian Government based on the monthly average price of Urals blend on world markets for the preceding month. In addition, crude oil exported to Belarus from 2007 to 2009 was subject to the export customs duty with a downward coefficient whereas since 2010 such exports are subject to the basic export customs duty rate (i.e. customs duty rate applicable to export of oil outside the countries covered by the Customs Union), except for the "preferential" amount of crude oil agreed by the governments of Russia and Belarus intended for processing in Belarus and subsequent sale in the territory of Belarus and Russia, export of which outside Russian customs territory is not a subject to export customs duties. Revenues are recognized net of the amount of custom duties.

5.10 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.

(In millions of Russian Roubles)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.11 Property, plant and equipment

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

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

Property, plant and equipment 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. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

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

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.12 Impairment of non-current non-financial assets

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

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

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

5.13 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.

5.14 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.

5.15 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 within the profit and loss section of the consolidated statement of comprehensive income.

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

The official US dollar to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 30.48 and 30.24 as of 31 December 2010 and 2009, respectively. The official Euro to RR exchange rates, as determined by the Central Bank of the Russian Federation, were 40.33 and 43.39 as of 31 December 2010 and 2009, respectively.

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.16 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.

5.17 Equity

Treasury shares

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

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

Dividends

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

5.18 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 various ways including using formulas, similar to European.

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.

Trading activity

Contracts to buy or sell non-financial items entered into for trading purposes and which do not meet the expected own-use requirements, such as contracts to sell or purchase commodities that can be net settled in cash or settled by entering into another contract, are recognized at fair value and associated gains or losses are recorded as Net gain from trading activity. These contracts are derivatives in the scope of IAS 39 for both measurement and disclosure. Revenues generated by trading activities are reported as a net figure, reflecting realized gross margins. Trading activities are mainly managed by Gazprom Marketing and Trading Ltd. subsidiary of the Group and relate partly to gas and oil trading and power and emission rights trading activities.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.19 Interest

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

5.20 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.

5.21 Employee benefits

Pension and other post-retirement benefits

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

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

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

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

Social expenses

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

5.22 Recent accounting pronouncements

In 2010 the Group has adopted all IFRS, amendments and interpretations which are effective 1 January 2010 and which are relevant to its operations.

(a) Standards, Amendments or Interpretations effective in 2010

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 for 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 an entity gives its owners a choice of receiving either non-cash assets or a cash alternative. The application of this interpretation did not materially affect the Group’s consolidated financial statements.

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 did not materially affect the Group’s consolidated financial statements.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amendment to IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" ("IFRIC 16") which is effective for annual periods beginning on or after 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group. The application of this amendment did not materially affect the Group's consolidated financial statements.

Amendment to IAS 38 "Intangible Assets" which is effective for annual periods beginning on or after 1 July 2009. The amendment clarifies guidance on measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The application of this amendment did not materially affect the Group's consolidated financial statements.

Amendment to IAS 1 "Presentation of Financial Statements" which is effective for annual periods beginning on or after 1 January 2010. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The application of this amendment did not materially affect the Group's consolidated financial statements.

Amendment to IAS 36 "Impairment of Assets" which is effective for annual periods beginning on or after 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, "Operating segments" (that is, before the aggregation of segments with similar economic characteristics). The application of this amendment did not materially affect the Group's consolidated financial statements.

Amendments to IFRS 2 "Share-based Payment" which are effective for annual periods beginning on or after 1 January 2010. The amendments provide a clear basis to determine the classification of share-based payment awards in consolidated financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The application of these amendments did not materially affect the Group's consolidated financial statements.

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

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

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

Amendment to IAS 24 "Related Party Disclosures" which is effective for annual periods beginning on or after 1 January 2011. IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group is currently assessing the impact of the amended standard on the Group's consolidated financial statements.

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

The Group is currently assessing the impact of the standard on the consolidated financial statements.

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

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

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

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

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

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

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

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

Amendment to IFRIC 13 "Customer Loyalty Programmes" clarifies measurement of fair value of award credits. The application of these improvements is not expected to materially affect the Group's consolidated financial statements.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

6 CRITICAL JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

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

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

6.1 Consolidation of subsidiaries

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

6.2 Tax legislation and uncertain tax position

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 43).
The Group's uncertain tax positions (potential tax gains and losses) are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management based on the interpretation of current tax laws. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle tax obligations at the balance sheet date.

6.3 Assumptions to determine amount of provisions

Impairment provision for accounts receivable

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

Impairment of Property plant and equipment

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

In addition, judgement is applied in determining the cash generating units assessed for impairment.

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

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

Accounting for provisions

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

6.4 Site restoration and environmental costs

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

6.5 Useful lives of property, plant and equipment

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

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2010 would be an increase by RR 26,991 or a decrease by RR 21,991 (2009: increase by RR 24,577 or decrease by RR 20,109).

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

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

6.6 Fair value estimation for financial instruments

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

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

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

6.7 Fair value estimation for acquisitions

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

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

6.8 Accounting for plan assets and pension liabilities

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

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

7 SEGMENT INFORMATION

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

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

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

Other activities have been included within "All other segments" column.

The inter-segment sales mainly consist of:

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

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

(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

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

	Production of gas	Transport	Distribution	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Year ended 31 December 2010									
Total segment revenues	340,918	651,483	2,367,366	25,823	446,507	717,607	295,436	174,962	5,020,102
Inter-segment sales	334,524	558,852	187,555	24,892	250,433	8,545	-	-	1,364,801
External sales	6,394	92,631	2,179,811	931	196,074	709,062	295,436	174,962	3,655,301
Segment result	45,102	37,309	715,260	3,860	77,064	84,901	28,753	(4,928)	987,321
Depreciation	74,948	249,734	5,618	9,153	43,205	22,441	18,631	16,584	440,314
Share of net income (loss) of associated undertakings and jointly controlled entities	7,093	(16,097)	19,390	-	40,226	1,530	-	24,378	76,520
Year ended 31 December 2009									
Total segment revenues	297,637	551,536	2,092,946	20,308	364,473	547,350	196,740	146,702	4,217,692
Inter-segment sales	292,164	485,973	118,693	19,470	188,070	6,845	-	-	1,111,215
External sales	5,473	65,563	1,974,253	838	176,403	540,505	196,740	146,702	3,106,477
Segment result	33,953	16,902	536,355	4,303	79,531	48,994	14,304	(12,151)	722,191
Depreciation	67,432	226,740	4,525	6,893	37,307	17,372	13,175	14,062	387,506
Share of net income (loss) of associated undertakings and jointly controlled entities	7,138	940	19,980	-	15,788	(626)	975	18,362	62,557

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

Note		For the year ended 31 December 2010	2009
	Segment result	987,321	722,191
	Difference in depreciation	196,698	166,309
	Expenses associated with pension obligations	(58,473)	(7,677)
	Expenses associated with other provisions	-	(2,181)
40	Gain from disposal of interest in OAO NOVATEK	77,375	-
34	Purchase of non-controlling interest in OAO Gazprom neft	-	13,865
38	Gain from swap of assets transaction	-	105,470
27	Finance income (expense), net	2,694	(65,688)
	Gains on disposal of available-for-sale financial assets	3,292	6,319
13	Share of net income (loss) of associated undertakings and jointly controlled entities	76,520	62,557
	Other	(11,724)	(21,730)
	Profit before profit tax	**1,273,703**	**979,435**

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

	For the year ended 31 December 2010	2009
External sales for reportable segments	3,480,339	2,959,775
External sales for other segments	174,962	146,702
Total external segment sales	**3,655,301**	**3,106,477**
Differences in external sales	(58,247)	(115,476)
Total sales per the statement of comprehensive income	**3,597,054**	**2,991,001**

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

(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

	Production of gas	Transport	Distribution	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
31 December 2010									
Segment assets	1,466,058	4,000,952	1,048,594	169,146	1,094,309	819,440	487,046	643,132	9,728,677
Investments in associated undertakings and jointly controlled entities	23,600	112,892	91,503	-	435,890	36,964	48	56,260	757,157
Capital additions	215,236	407,571	37,578	17,355	95,289	78,712	46,239	22,153	920,133
31 December 2009									
Segment assets	1,438,222	3,323,087	874,339	125,069	1,124,222	747,980	470,221	546,336	8,649,476
Investments in associated undertakings and jointly controlled entities	102,503	102,801	88,991	-	438,655	34,439	-	27,316	794,705
Capital additions	218,921	231,723	27,185	9,549	84,749	41,557	26,139	20,959	660,782

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

	31 December 2010	31 December 2009
Segment assets for reportable segments	9,085,545	8,103,140
Other segments' assets	643,132	546,336
Total segment assets	**9,728,677**	**8,649,476**
Differences in property, plant and equipment, net*	(1,709,952)	(1,399,885)
Loan interest capitalised	192,154	143,967
Decommissioning costs	65,017	55,466
Cash and cash equivalents	440,786	249,759
Restricted cash	3,669	4,872
Short-term financial assets	7,435	52,137
VAT recoverable	158,390	139,718
Other current assets	171,976	107,044
Available-for-sale long-term financial assets	191,417	106,658
Other non-current assets	498,663	467,659
Inter-segment assets	(659,640)	(380,774)
Other	147,401	172,431
Total assets per the balance sheet	**9,235,993**	**8,368,528**

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

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

	Production of gas	Transport	Distri-bution	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy genera-tion and sales	All other segments	Total
Total liabilities									
31 December 2010	105,270	306,784	433,569	7,309	228,315	123,422	32,275	148,954	1,385,898
31 December 2009	111,421	135,788	195,403	1,407	214,098	98,545	35,760	141,694	934,116

(In millions of Russian Roubles)

7 SEGMENT INFORMATION (continued)

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

	31 December 2010	31 December 2009
Segment liabilities for reportable segments	1,236,944	792,422
Other segments' liabilities	148,954	141,694
Total segments liabilities	**1,385,898**	**934,116**
Current profit tax payable	45,649	37,267
Short-term borrowings and current portion of long-term borrowings	190,845	424,855
Short-term promissory notes payable	207	11,761
Long-term borrowings	1,124,395	1,184,457
Long-term promissory notes payable	-	4,592
Provisions for liabilities and charges	200,040	143,591
Deferred tax liabilities	333,143	321,524
Other non-current liabilities	30,793	17,151
Dividends	2,258	1,924
Inter-segment liabilities	(659,640)	(380,774)
Other	46,044	18,743
Total liabilities per the balance sheet	**2,699,632**	**2,719,207**

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. As of 31 December 2010 and 2009 restricted cash includes cash balances of RR nil and RR 1,233, respectively, in banking subsidiaries, which are restricted as to withdrawal under banking regulations. As of 31 December 2009 these balances of banking subsidiaries were mainly attributable to ZAO Gazenergoprombank that was deconsolidated in April 2010 (see Note 39).

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

	31 December	
	2010	**2009**
Cash on hand	261	4,495
External credit rating of BB and above	400,038	231,486
External credit rating of B	20,073	3,899
No external credit rating	20,414	9,879
Total cash and cash equivalents	**440,786**	**249,759**

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

(In millions of Russian Roubles)

9 SHORT-TERM FINANCIAL ASSETS

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

	31 December 2010				31 December 2009			
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	**Total**	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	**Total**
Financial assets held for trading:	**2,599**	**90**	**-**	**2,689**	**7,591**	**14,348**	**-**	**21,939**
Bonds	328	90	-	418	5,598	50	-	5,648
Equity securities	2,271	-	-	2,271	1,993	-	-	1,993
Promissory notes	-	-	-	-	-	14,298	-	14,298
Available-for-sale financial assets:	**-**	**4,746**	**-**	**4,746**	**11,339**	**10,069**	**8,790**	**30,198**
Bonds (net of impairment provision of RR nil and RR 149 as of 31 December 2010 and 2009, respectively)	-	-	-	-	11,339	4,250	-	15,589
Promissory notes (net of impairment provision of RR 427 and RR 47 as of 31 December 2010 and 2009, respectively)	-	4,746	-	4,746	-	5,819	8,790	14,609
Total short-term financial assets	**2,599**	**4,836**	**-**	**7,435**	**18,930**	**24,417**	**8,790**	**52,137**

Financial assets held for trading owned by the Group's banking subsidiaries amounted to RR nil and RR 19,182 as of 31 December 2010 and 2009 respectively. As of 31 December 2009 these assets of banking subsidiaries were mainly attributable to ZAO Gazenergoprombank that was deconsolidated in April 2010 (see Note 39).

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

	31 December 2010	31 December 2009
External credit rating of BB and above	4,621	33,790
External credit rating of B	298	3,368
No external credit rating	245	12,986
	5,164	**50,144**

As of 31 December 2009 short-term financial assets with no external credit rating were mainly represented by investments in debt securities circulated on the Russian security market which are not quoted.

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2010	31 December 2009
Financial assets		
Trade receivables (net of impairment provision of RR 162,374 and RR 126,977 as of 31 December 2010 and 2009, respectively)	400,252	393,554
Other receivables (net of impairment provision of RR 12,641 and RR 25,063 as of 31 December 2010 and 2009, respectively)	139,351	189,406
	539,603	582,960
Non-financial assets		
Advances and prepayments (net of impairment provision of RR 464 and RR 1,021 as of 31 December 2010 and 2009, respectively)	218,297	263,765
Total accounts receivable and prepayments	**757,900**	**846,725**

(In millions of Russian Roubles)

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

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

As of 31 December 2010 and 2009 RR 235,782 and RR 268,393 of trade receivables, net of impairment provision, respectively, are denominated in foreign currencies, mainly US dollar and Euro.

As of 31December 2010 and 2009 other receivables include RR nil and RR 42,640, respectively, relating to the operations of the Group's banking subsidiaries. This balance mainly represents deposits with other banks and loans issued to customers at commercial rates based on credit risks and maturities. As of 31 December 2009 other receivables of banking subsidiaries were mainly attributable to ZAO Gazenergoprombank that was deconsolidated in April 2010 (see Note 39).

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

As of 31 December 2009 the average effective interest rates on banking deposits and loans equaled 12.8% on balances denominated in Russian Roubles and 8.3% on balances denominated in foreign currencies.

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

As of 31 December 2010 and 2009, trade receivables of RR 22,570 and RR 26,004, 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**	
	2010	**2009**
Up to 6 months	7,722	14,326
From 6 to 12 months	2,358	6,645
From 1 to 3 years	12,374	3,196
More than 3 years	116	1,837
	22,570	**26,004**

As of 31 December 2010 and 2009, trade receivables of RR 162,924 and RR 132,602, respectively, were impaired and provided for. The amount of the provision was RR 162,374 and RR 126,977 as of 31 December 2010 and 2009, 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**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Up to 6 months	22,184	15,129	(22,105)	(12,546)	79	2,583
From 6 to 12 months	15,758	19,107	(15,735)	(17,724)	23	1,383
From 1 to 3 years	51,223	38,893	(50,881)	(38,402)	342	491
More than 3 years	73,759	59,473	(73,653)	(58,305)	106	1,168
	162,924	**132,602**	**(162,374)**	**(126,977)**	**550**	**5,625**

As of 31 December 2010 and 2009, trade receivables of RR 377,132 and RR 361,925, 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	
	2010	**2009**
Europe and other countries gas, crude oil, gas condensate and refined products debtors	183,652	182,501
FSU (excluding Russian Federation) gas, crude oil, gas condensate and refined products debtors	48,226	69,664
Domestic gas, crude oil, gas condensate and refined products debtors	96,012	40,305
Electric and heat energy sales debtors	22,815	13,807
Transportation services debtors	1,895	5,488
Other trade debtors	24,532	50,160
Total trade receivables neither past due, nor impaired	**377,132**	**361,925**

(In millions of Russian Roubles)

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

As of 31 December 2010 and 2009, trade receivables that would otherwise be past due whose terms have been renegotiated, amounted to RR 1,316 and RR 3,021, respectively.

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

	Trade receivables Year ended 31 December		Other receivables Year ended 31 December	
	2010	**2009**	**2010**	**2009**
Impairment provision at the beginning of the year	126,977	96,599	25,063	16,426
Impairment provision accrued*	38,755	28,303	2,678	1,130
Disposal of subsidiaries	-	-	(6,330)	-
Write-off of receivables during the year**	(3,056)	(2,345)	(7,980)	(846)
Release of previously created provision*	(302)	(2,062)	(790)	(3,203)
Unwind of discounting*	-	(697)	-	-
Acquisition of subsidiaries	-	7,179	-	11,556
Impairment provision at the end of the year	**162,374**	**126,977**	**12,641**	**25,063**

* The accrual and release of provision for impaired receivables and effect of discounting have been included in impairment provision and other provisions in the consolidated statement of comprehensive income.
** If there is no probability of cash receipt for the impaired accounts receivable which were previously provided for, the amount of respective accounts receivable is written-off by means of that provision.

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

11 INVENTORIES

	31 December 2010	31 December 2009
Gas in pipelines and storage	164,448	135,701
Materials and supplies (net of an obsolescence provision of RR 2,317 and RR 2,622 as of 31 December 2010 and 2009, respectively)	100,025	104,851
Goods for resale (net of an obsolescence provision of RR 268 and RR 918 as of 31 December 2010 and 2009, respectively)	19,990	12,651
Crude oil and refined products	41,276	33,516
	325,739	**286,719**

(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 31.12.08								
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 as of 31.12.08	**930,815**	**439,983**	**742,776**	**837,644**	**254,781**	**55,516**	**759,007**	**4,020,522**
Depreciation	(47,962)	(26,139)	(81,698)	(48,254)	(17,988)	(2,404)	-	(224,445)
Additions	97	56	8,113	1,062	19,960	394	737,560	767,242
Acquisition of subsidiaries	-	18,885	110,059	116,323	102,060	51	42,614	389,992
Translation differences	(1,110)	(2,387)	(1,622)	(5,018)	(587)	(65)	(2,512)	(13,301)
Transfers	62,986	92,362	147,339	129,086	-	857	(432,630)	-
Disposals	(625)	(2,923)	(3,839)	(7,479)	-	(2,890)	(13,348)	(31,104)
Charge of impairment provision	-	-	(2,013)	(1,623)	-	-	(6,047)	(9,683)
Net book value as of 31.12.09	**944,201**	**519,837**	**919,115**	**1,021,741**	**358,226**	**51,459**	**1,084,644**	**4,899,223**
As of 31.12.09								
Cost	1,863,068	813,580	1,606,630	1,559,210	450,178	78,487	1,084,644	7,455,797
Accumulated depreciation	(918,867)	(293,743)	(687,515)	(537,469)	(91,952)	(27,028)	-	(2,556,574)
Net book value as of 31.12.09	**944,201**	**519,837**	**919,115**	**1,021,741**	**358,226**	**51,459**	**1,084,644**	**4,899,223**
Depreciation	(48,912)	(29,954)	(96,359)	(54,576)	(16,557)	(2,425)	-	(248,783)
Additions	39	10	12,420	3,223	1,394	1,713	996,358	1,015,157
Acquisition of subsidiaries	-	-	4,750	9,521	-	-	232	14,503
Translation differences	393	55	136	396	(6)	20	868	1,862
Transfers	96,153	101,831	185,715	169,124	930	6,656	(560,409)	-
Disposals	(579)	(3,168)	(24,016)	(7,959)	(2,290)	(2,448)	(32,649)	(73,109)
Disposals of subsidiaries	-	(1,105)	(1,012)	(8,459)	(98,148)	(3)	(13,076)	(121,803)
Charge of impairment provision	-	-	-	-	-	-	(621)	(621)
Net book value as of 31.12.10	**991,295**	**587,506**	**1,000,749**	**1,133,011**	**243,549**	**54,972**	**1,475,347**	**5,486,429**
As of 31.12.10								
Cost	1,959,053	910,240	1,787,674	1,722,143	352,058	82,818	1,475,347	8,289,333
Accumulated depreciation	(967,758)	(322,734)	(786,925)	(589,132)	(108,509)	(27,846)	-	(2,802,904)
Net book value as of 31.12.10	**991,295**	**587,506**	**1,000,749**	**1,133,011**	**243,549**	**54,972**	**1,475,347**	**5,486,429**

At each balance sheet date management assesses whether there is any indication that the recoverable value has declined below the carrying value of the property, plant and equipment. As of 31 December 2010 and 2009 operating assets are shown net of provision for impairment of RR 54,387.

Assets under construction are presented net of a provision for impairment of RR 96,146 and RR 97,157 as of 31 December 2010 and 2009, respectively. Charges for impairment provision of assets under construction primarily relate to projects that have been indefinitely suspended.

Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatization with a net book value of RR 1,354 and RR 2,265 as of 31 December 2010 and 2009, respectively.

Included in additions above is capitalized interest of RR 62,392 and RR 45,516 for the years ended 31 December 2010 and 2009, respectively. Capitalization rates of 7.86% and 8.17% were used representing the weighted average borrowing cost for the years ended 31 December 2010 and 2009, respectively.

Depreciation expenses in the consolidated statement of comprehensive income do not include depreciation which is considered as a cost of self-constructed assets (and thus capitalized rather than expensed) in amount of RR 2,644 and RR 2,795 for the years ended 31 December 2010 and 2009, respectively. Depreciation expenses in the consolidated statement of comprehensive income include effect of change in amount of depreciation that was capitalized as a component of cost of inventories. For the year ended 31 December 2010 the effect amounted to RR 5,285 increase in depreciation capitalized in inventories, whereas for 2009 the depreciation decreased by RR 1,154.

(In millions of Russian Roubles)

13 INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINTLY CONTROLLED ENTITIES

		Carrying value as of 31 December		Group's share of the profit (loss) for	
Notes		2010	2009	2010	2009
41,42	Sakhalin Energy Investment Company Ltd.*	153,871	187,323	31,336	8,673
41	OAO NGK Slavneft and its subsidiaries	151,826	151,671	2,812	3,597
41	OAO Tomskneft VNK and its subsidiaries	65,286	69,614	1,651	4,390
41	OAO Beltransgaz**	53,678	50,340	(14,814)	742
41	Gazprombank Group	50,362	22,284	24,386	18,362
41	WINGAS GmbH & Co. KG	41,798	46,344	4,125	3,481
42	Nord Stream AG	39,066	32,373	(1,587)	(729)
35,41	Salym Petroleum Development N.V.	38,395	35,933	2,462	(1,358)
36	OOO Yamal razvitie and its subsidiaries***	27,984	-	(139)	-
41	TOO KazRosGaz	27,034	18,675	9,521	9,941
41	OAO Salavatnefteorgsyntez	19,940	19,272	668	(1,678)
	Shtokman Development AG	17,741	14,298	(442)	102
41,42	SGT EuRoPol GAZ S.A.	17,314	17,744	(171)	596
	Wintershall AG	11,003	11,325	2,023	1,690
	ZAO Nortgaz	5,023	4,331	783	455
41	AO Latvijas Gaze	4,255	4,326	529	406
41	AO Gazum	4,040	4,507	735	789
42	ZAO Achimgaz	3,054	1,650	1,404	(532)
41	AO Lietuvos dujos	3,011	2,796	714	698
41,42	Blue Stream Pipeline company B.V.	2,093	1,603	475	331
40,41	OAO NOVATEK****	-	78,929	7,553	5,050
	Other (net of provision for impairment of RR 2,096 and RR 2,452 as of 31 December 2010 and 2009 respectively)	20,383	19,367	2,496	7,551
		757,157	**794,705**	**76,520**	**62,557**

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

**In February 2009 the Group acquired 12.5% interest in OAO Beltransgaz for USD 625 million. As a result the Group increased its interest in OAO Beltransgaz up to 37.5%. In February 2010 the Group paid USD 625 million to acquire 12.5% interest in OAO Beltransgaz to increase its interest in OAO Beltransgaz up to 50%.

*** In July 2010 the Group set up OOO Yamal razvitie – jointly controlled entity on a fifty-fifty basis with OAO NOVATEK. As a result of disposal of 51% interest in OOO SeverEnergiya to OOO Yamal razvitie in November 2010, the Group retained effective 25.5% interest in OOO SeverEnergiya as of 31 December 2010 (see Note 36).

**** In December 2010 the Group sold 9.4% interest in OAO NOVATEK. As a result of that transaction, Group ceased to excercise significant influence over OAO NOVATEK and accounted for retained interest within available-for-sale long-term financial assets (see Note 40).

(In millions of Russian Roubles)

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

	Year ended 31 December	
	2010	2009
Balance at the beginning of the reporting period	**794,705**	**772,143**
Increase in share of OAO Beltransgaz	18,844	22,134
Share of net income of associated undertakings and jointly controlled entities	76,520	62,557
Distribution from associated undertakings and jointly controlled entities	(59,776)	(22,889)
Acquisition of the controlling interest in OAO TGC-1 (see Note 37) and OAO Moscovsky NPZ (see Note 35)	-	(49,359)
Redemption of preference shares of Sakhalin Energy Investment Company Ltd.	(34,401)	(50,942)
Disposal of interest in OAO NOVATEK (see Note 40)	(84,978)	-
Contribution in OOO Yamal razvitie (see Note 36)	28,123	-
Share of other comprehensive income of associated undertakings and jointly controlled entities	4,100	7,098
Translation differences	(7,048)	4,465
Other acquisitions and disposals	21,068	49,498
Balance at the end of the reporting period	**757,157**	**794,705**

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

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

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

** The losses of OOO Yamal razvitie and its subsidiaries, for the year ended 31 December 2010 are disclosed from the date of acquisition (see Note 36).

(In millions of Russian Roubles)

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

	Assets	Liabilities	Revenues	Profit (loss)
31 December 2009				
Gazprombank Group*	1,741,142	1,545,148	80,458	54,255
Sakhalin Energy Investment Company Ltd.	675,299	296,811	107,554	17,347
OAO NGK Slavneft and its subsidiaries	615,441	290,969	121,412	7,215
OAO NOVATEK	193,639	60,199	89,954	26,043
WINGAS GmbH & Co. KG	148,268	112,416	340,916	6,450
OAO Tomskneft VNK and its subsidiaries	144,011	75,477	71,666	8,780
Nord Stream AG	120,755	55,255	2	(1,429)
OAO Salavatnefteorgsyntez	69,709	49,085	67,756	(3,241)
Blue Stream Pipeline company B.V.	69,520	63,245	7,938	1,322
SGT EuRoPol GAZ S.A.	55,061	18,096	14,662	1,202
OAO Beltransgaz	53,173	22,411	103,555	2,455
TOO KazRosGaz	38,487	1,136	39,643	19,882
Shtokman Development AG	34,705	6,670	-	200
AO Gazum	34,429	16,399	45,159	3,157
Salym Petroleum Development N.V.**	32,053	29,125	43,564	(2,322)
AO Lietuvos dujos	31,701	6,960	15,535	1,160
Wintershall AG	30,413	19,124	61,542	3,448
AO Latvijas Gaze	27,993	8,033	19,699	1,193
ZAO Nortgaz	10,331	1,840	4,280	888
ZAO Achimgaz	10,122	6,822	2,760	(98)

* Presented revenue of Gazprombank Group is reported according to the Group accounting policy and includes revenue of media business, machinery business and other non-banking companies. Profit of Gazprombank Group includes profit from discontinued operations (petrochemical business) in amount RR 14,730.
** The revenues and profits of Salym Petroleum Development N.V, for the year ended 31December 2009 are disclosed from the date of acquisition.

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

	31 December 2010	31 December 2009
OAO NOVATEK	-	117,538
OAO Salavatnefteorgsyntez	20,046	19,748
AO Lietuvos dujos	5,134	4,539
AO Latvijas Gaze	3,735	3,382

Principal associated undertakings and jointly controlled entities

Entities	Country	Nature of operations	% of ordinary shares held as of 31 December* 2010	2009
ZAO Achimgaz	Russia	Exploration and production of gas and gas condensate	50	50
OAO Beltransgaz	Belarus	Transportation and gas supply	50	38
Bosphorus Gaz Corporation A.S.	Turkey	Gas distribution	51	51
WINGAS GmbH & Co. KG	Germany	Transportation and gas distribution	50	50
Wintershall AG	Germany	Production of oil and gas distribution	49	49
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	Germany	Gas distribution	50	50
Gaz Project Development Central Asia AG	Switzerland	Gas production	50	50
OAO Gazprombank	Russia	Banking	45	44
AO Gazum	Finland	Gas distribution	25	25
Blue Stream Pipeline company B.V.	Netherlands	Construction, gas transportation	50	50
SGT EuRoPol GAZ S.A.	Poland	Transportation and gas distribution	48	48

(In millions of Russian Roubles)

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

Entities	Country	Nature of operations	% of ordinary shares held as of 31 December* 2010	2009
TOO KazRosGaz	Kazakhstan	Gas processing and sales of gas and refined products	50	50
AO Latvijas Gaze	Latvia	Transportation and gas distribution	34	34
AO Lietuvos dujos	Lithuania	Transportation and gas distribution	37	37
AO Moldovagaz	Moldova	Transportation and gas distribution	50	50
OAO NOVATEK	Russia	Production and distribution of gas	-	19
Nord Stream AG	Switzerland	Construction, gas transportation	51	51
ZAO Nortgaz	Russia	Exploration and sales of gas and gas condensate	51	51
AO Overgaz Inc.	Bulgaria	Gas distribution	50	50
ZAO Panrusgaz	Hungary	Gas distribution	40	40
AO Prometheus Gas	Greece	Gas distribution, construction	50	50
RosUkrEnergo AG	Switzerland	Gas distribution	50	50
OAO Gazprom neftekhim Salavat (OAO Salavatnefteorgsyntez)**	Russia	Processing and distribution of refined products	50	50
Salym Petroleum Development N.V.	Netherlands	Oil production	50	50
Sakhalin Energy Investment Company Ltd.	Bermuda Islands	Oil production, production of LNG	50	50
OAO NGK Slavneft	Russia	Production of oil, sales of oil and refined products	50	50
OAO Tomskneft VNK	Russia	Oil production	50	50
AO Turusgaz	Turkey	Gas distribution	45	45
Shtokman Development AG	Switzerland	Exploration and production of gas	51	51
OOO Yamal razvitie***	Russia	Investment activities, assets management	50	-

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

** The company was renamed in 2011 (former name is in the brackets).

*** OOO Yamal razvitie is a holder of 51% of share in OOO SeverEnergiya (see Note 36).

14 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2010	2009
Long-term accounts receivable and prepayments (net of impairment provision of RR 22,139 and RR 24,915 as of 31 December 2010 and 2009, respectively)	169,124	193,319
Advances for assets under construction (net of impairment provision of RR 331 and RR 7 as of 31 December 2010 and 2009, respectively)	267,308	219,990
	436,432	**413,309**

As of 31 December 2010 and 2009 long-term accounts receivable included RR nil and RR 62,967, respectively, relating to the operations of Group's banking subsidiaries. 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 2009 these assets of banking subsidiaries were mainly attributable to ZAO Gazenergoprombank that was deconsolidated in April 2010 (see Note 39).

As of 31 December 2010 and 2009, long-term accounts receivable and prepayments with carrying value RR 169,124 and RR 193,319 have the estimated fair value RR 147,374 and RR 185,649 respectively.

Long-term accounts receivable and prepayments include prepayments in amount of RR 1,962 and RR 3,254 as of 31 December 2010 and 2009 respectively.

(In millions of Russian Roubles)

14 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

Long-term accounts receivable of RR 58,621 and RR 101,092 as of 31 December 2010 and 2009, respectively, were impaired and provided for. These receivables as of 31 December 2009 mainly related to Group's banking subsidiaries operations. The amount of the provision was RR 22,139 and RR 24,915 as of 31 December 2010 and 2009, respectively.

As of 31 December 2010 and 2009, long-term accounts receivable of RR 48 and RR 13, respectively, were past due but not impaired.

As of 31 December 2010 and 2009, long-term accounts receivable of RR 132,594 and RR 117,129, respectively, were neither past due, nor impaired. These assets can be analysed as follows:

	31 December 2010	31 December 2009
Accounts receivable of Group's banking subsidiaries	-	121
Long-term loans	74,328	77,000
Long-term trade receivables	4,664	5,440
Other long-term receivables	53,602	34,568
Total long-term accounts receivable neither past due, nor impaired	**132,594**	**117,129**

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

As of 31 December 2010 and 2009, trade receivables that would otherwise be past due whose terms have been renegotiated, amounted to RR 346 and RR 1,737, respectively.

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

	Year ended 31 December 2010	Year ended 31 December 2009
Impairment provision at the beginning of the year	24,915	17,303
Impairment provision accrued*	7,343	6,512
Disposal of subsidiaries	(12,203)	-
Release of previously created provision*	(1,295)	(2,981)
Acquisition of subsidiaries	3,379	4,081
Impairment provision at the end of the year	**22,139**	**24,915**

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

15 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

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

	31 December 2010				31 December 2009			
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	**Total**	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	**Total**
Equity securities*	166,000	22,006	865	**188,871**	49,047	25,709	2,555	**77,311**
Debt instruments	24	2,522	-	**2,546**	12,896	16,116	335	**29,347**
	166,024	**24,528**	**865**	**191,417**	**61,943**	**41,825**	**2,890**	**106,658**

*As of 31 December 2010 equity securities include OAO NOVATEK shares in the amount of RR 110,471 (see Note 40).

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

As of 31 December 2010 and 2009 available-for-sale long-term financial assets owned by the Group's banking subsidiaries amounted to RR nil and RR 25,809 respectively. As of 31 December 2009 these financial assets mainly included financial assets of ZAO Gazenergoprombank that was deconsolidated in April 2010 (see Note 39).

(In millions of Russian Roubles)

15 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS (continued)

Movements in long-term available-for-sale financial assets	Year ended 31 December 2010	2009
Balance at the beginning of the year	106,658	48,186
Reclassification of investment in OAO NOVATEK (see note 40)	104,484	-
Increase in fair value of long-term available-for-sale financial assets	23,798	34,220
Purchased long-term available-for-sale financial assets	4,151	32,489
Increase of long-term available-for-sale financial assets as a result of consolidation of subsidiaries	-	5,769
Deconsolidation of ZAO Gazenergoprombank	(10,207)	-
Disposal of long-term available-for-sale financial assets	(37,679)	(13,346)
Impairment of long-term available-for-sale financial assets release (accrual)	212	(660)
Balance at the end of the year	**191,417**	**106,658**

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 107,969 and RR 87,255 as of 31 December 2010 and 2009 respectively.

Other non-current assets include net pension assets in the amount of RR 254,304 and RR 243,982 as of 31 December 2010 and 2009 respectively (see Note 23).

17 ACCOUNTS PAYABLE AND ACCRUED CHARGES

	31 December 2010	2009
Financial liabilities		
Trade payables	275,098	215,583
Accounts payable for acquisition of property, plant and equipment	159,470	103,119
Liabilities of Group's banking subsidiaries	-	30,006
Other payables	114,215	121,548
	548,783	470,256
Non-financial liabilities		
Advances received	152,672	30,514
Accruals and deferred income	1,185	1,305
	153,857	31,819
	702,640	**502,075**

Liabilities of Group's banking subsidiaries represent mainly amounts due to the bank's customers with terms at commercial rates ranging from 0.03% to 11.4% per annum as of 31 December 2009. These balances mainly included financial liabilities of ZAO Gazenergoprombank that was deconsolidated in April 2010 (see Note 39).

Trade payables of RR 26,534 and RR 48,906 were denominated in foreign currency, mainly the US dollar and Euro, as of 31 December 2010 and 2009, respectively. Book values of accounts payable approximate their fair value.

(In millions of Russian Roubles)

18 OTHER TAXES PAYABLE

	31 December 2010	31 December 2009
VAT	32,365	28,239
Natural resources production tax	18,273	15,293
Property tax	10,708	8,183
Excise tax	4,297	5,593
Tax penalties and interest	628	1,536
Other taxes	5,650	13,130
	71,921	71,974
Less: long-term portion of restructured tax liabilities	(1)	(40)
	71,920	**71,934**

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

	31 December 2010	31 December 2009
Short-term borrowings:		
RR denominated borrowings	16,111	119,178
Foreign currency denominated borrowings	47,163	71,998
	63,274	191,176
Current portion of long-term borrowings (see Note 20)	127,571	233,679
	190,845	**424,855**

Short-term RR denominated borrowings had fixed interest rates ranging from 0.3% to 15.5% and from 9.6% to 20.2% during the years ended 31 December 2010 and 2009, respectively. Short-term foreign currency denominated borrowings had fixed interest rates ranging from 6% to 9.8% and 5.5% to 12% during the years ended 31 December 2010 and 2009 respectively. Besides during the years ended 31 December 2010 and 2009 short-term borrowings denominated in foreign currency had variable interest rates generally linked to LIBOR.

As of 31 December 2010 and 2009 short-term borrowings include RR nil and RR 90,319, respectively, short-term borrowings of the Group's banking subsidiaries. As of 31 December 2009 short-term borrowings of the banking subsidiaries were partly attributable to borrowings of ZAO Gazenergoprombank that was deconsolidated in April 2010 (see Note 39).

The Group's short-term promissory notes payable had average interest rates ranging from 4.03% to 8.47% for the year ended 31 December 2009.

Fair values approximate the carrying value of these liabilities.

20 LONG-TERM BORROWINGS AND PROMISSORY NOTES

	Currency	Final Maturity	31 December 2010	31 December 2009
Long-term borrowings payable to:				
Loan participation notes issued in April 2009[1]	US dollar	2019	69,771	69,238
The Royal Bank of Scotland AG	US dollar	2013	55,046	54,625
Loan participation notes issued in October 2007[1]	Euro	2018	51,220	55,100
Loan participation notes issued in June 2007[1]	US dollar	2013	48,963	48,589
Natixis SA[2]	US dollar	2015	45,721	-
Loan participation notes issued in May 2005[1]	Euro	2015	41,715	44,875
Loan participation notes issued in November 2006[1]	US dollar	2016	41,421	41,104
Loan participation notes issued in December 2005[1]	Euro	2012	40,445	43,509

(In millions of Russian Roubles)

20 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

	Currency	Final Maturity	31 December 2010	31 December 2009
Loan participation notes issued in March 2007[1]	US dollar	2022	40,437	40,128
White Nights Finance B.V.	US dollar	2014	39,744	39,441
Loan participation notes issued in July 2009[1]	US dollar	2014	39,386	39,094
Loan participation notes issued in August 2007[1]	US dollar	2037	39,137	38,838
Loan participation notes issued in April 2004[1]	US dollar	2034	37,124	36,841
Loan participation notes issued in July 2009[1]	Euro	2015	36,809	38,144
Loan participation notes issued in April 2008[1]	US dollar	2018	34,131	33,871
Loan participation notes issued in October 2006[1]	Euro	2014	32,804	35,289
Loan participation notes issued in November 2010[1]	US dollar	2015	30,615	-
Loan participation notes issued in June 2007[1]	Euro	2014	28,490	30,649
WestLB AG[2]	US dollar	2013	25,744	30,446
Structured export notes issued in July 2004[3]	US dollar	2020	22,747	27,118
Loan participation notes issued in November 2006[1]	Euro	2017	20,975	22,564
Loan participation notes issued in March 2007[1]	Euro	2017	20,347	21,888
Russian bonds issued in April 2010[7]	Rouble	2013	20,000	-
OAO Russian National Commercial Bank	US dollar	2012	19,018	18,872
Loan participation notes issued in April 2009[1]	CHF	2011	17,209	15,472
OAO Sberbank Rossii (AK Sberegatelny bank RF (OAO)	US dollar	2012	16,643	25,937
Credit Suisse International	US dollar	2017	15,989	15,867
Loan participation notes issued in July 2008[1]	US dollar	2013	15,671	15,551
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2012	15,259	15,184
J.P. Morgan Chase bank	US dollar	2012	12,847	12,757
Loan participation notes issued in April 2008[1]	US dollar	2013	12,390	12,295
OAO VTB Bank	US dollar	2012	12,317	12,226
Deutsche Bank AG	US dollar	2014	11,410	16,144
Russian bonds issued in April 2009[7]	Rouble	2019	11,173	10,427
The Royal Bank of Scotland AG[2]	US dollar	2012	10,774	24,550
Citibank International plc[2]	US dollar	2021	10,269	-
Russian bonds issued in June 2009	Rouble	2012	10,011	10,007
Deutsche Bank AG	US dollar	2014	9,217	-
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2015	9,198	-
Eurofert Trading Limited llc[5]	Rouble	2015	8,600	-
Loan participation notes issued in November 2007[1]	JPY	2012	8,017	7,956
Russian bonds issued in July 2009[7]	Rouble	2016	8,000	8,429
Credit Agricole CIB[2]	US dollar	2013	7,633	-
BNP Paribas SA[2]	Euro	2022	7,108	-
GK Vnesheconombank	Rouble	2025	6,621	-
Deutsche Bank AG	US dollar	2014	6,115	6,058
The Royal Bank of Scotland AG[2]	US dollar	2013	5,521	5,479
Russian bonds issued in February 2007	Rouble	2014	5,134	5,133
Russian bonds issued in November 2006	Rouble	2011	5,061	5,060
Russian bonds issued in December 2009[6]	Rouble	2014	5,039	5,038
Russian bonds issued in June 2009	Rouble	2014	5,006	5,004
Russian bonds issued in July 2009[8]	Rouble	2011	5,000	5,000
Eurofert Trading Limited llc.[5]	Rouble	2015	5,000	-
Russian bonds issued in March 2006[6]	Rouble	2016	4,910	4,909
Russian bonds issued in September 2006[6]	Rouble	2011	4,801	4,799
ZAO Raiffeisenbank	US dollar	2013	3,050	-
OAO Nordea Bank	US dollar	2014	3,048	-
Deutsche Bank AG	US dollar	2011	2,907	5,770

(In millions of Russian Roubles)

20 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

	Currency	Final Maturity	31 December 2010	31 December 2009
Gazstream SA	US dollar	2012	2,368	3,525
BNP Paribas SA[2]	Euro	2023	2,211	2,070
OAO TransKreditBank	Rouble	2012	1,970	2,718
Russian bonds issued in April 2007[5]	Rouble	2012	1,547	2,916
J.P. Morgan Chase bank	US dollar	2011	1,528	3,034
OAO Sberbank Rossii (AK Sberegatelny bank RF (OAO)	US dollar	2010	-	70,564
Loan participation notes issued in September 2003[1]	Euro	2010	-	44,278
GK Vnesheconombank	US dollar	2010	-	22,751
Credit Agricole CIB[2]	US dollar	2010	-	18,156
Credit Suisse International	Euro	2010	-	10,860
Commerzbank AG[2]	US dollar	2010	-	9,474
The Royal Bank of Scotland AG[2]	US dollar	2010	-	8,152
OAO Gazprombank	Rouble	2010	-	7,500
OOO Aragon[4]	Euro	2010	-	7,343
Loan participation notes issued in November 2007[1]	JPY	2010	-	5,302
Russian bonds issued in February 2005	Rouble	2010	-	5,159
Russian bonds issued in July 2007[5]	Rouble	2010	-	5,001
Wintershall Holding GmbH[4]	Euro	2010	-	4,906
E.ON Ruhrgas AG	Euro	2010	-	4,589
Golden Gates B.V.	Rouble	2010	-	3,227
Other long-term borrowings	Various	Various	63,584	111,336
Total long-term borrowings			1,251,966	1,418,136
Less: current portion of long-term borrowings			(127,571)	(233,679)
			1,124,395	**1,184,457**

[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 Gazprom neft.
[8] Issuer of these bonds is OAO TGC-1.

	31 December 2010	31 December 2009
RR denominated borrowings (including current portion of RR 28,473 and RR 15,778 as of 31 December 2010 and 2009, respectively)	129,071	154,887
Foreign currency denominated borrowings (including current portion of RR 99,098 and RR 217,901 as of 31 December 2010 and 2009, respectively)	1,122,895	1,263,249
	1,251,966	**1,418,136**

Due for repayment:	31 December 2010	31 December 2009
Between one and two years	166,853	162,848
Between two and five years	551,310	527,212
After five years	406,232	494,397
	1,124,395	**1,184,457**

(In millions of Russian Roubles)

20 LONG-TERM BORROWINGS AND PROMISSORY NOTES (continued)

Long-term borrowings include fixed rate loans with a carrying value of RR 1,065,435 and RR 1,149,288 and fair value of RR 1,130,206 and RR 1,199,339 as of 31 December 2010 and 2009 respectively. All other long-term borrowings have variable interest rates generally linked to LIBOR, and the difference between carrying value of these liabilities and their fair value is not significant.

As of 31 December 2010 and 2009 long-term borrowings include RR nil and RR 57,365 respectively, relating to the operations of the Group's banking subsidiaries. As of 31 December 2009 long-term borrowings of the banking subsidiaries were partly attributable to borrowings of ZAO Gazenergoprombank that was deconsolidated in April 2010 (see Note 39).

In 2010 and 2009 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	
	2010	**2009**
Fixed rate RR denominated long-term borrowings	10.76%	11.74%
Fixed rate foreign currency denominated long-term borrowings	7.25%	7.47%
Variable rate foreign currency denominated long-term borrowings	3.01%	2.10%

As of 31 December 2010 and 2009 long-term borrowings of RR 22,747 and RR 27,118, 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 long-term promissory notes payable had average interest rates ranging from 4.03% to 8.47% during 2009.These promissory notes payable had defined maturity dates from a year to five years.

21 PROFIT TAX

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

Notes		Year ended 31 December	
		2010	**2009**
	Profit before profit tax	1,273,703	979,435
	Theoretical tax charge calculated at applicable tax rates	(254,741)	(195,887)
	Tax effect of items which are not deductible or assessable for taxation purposes:		
	Non-deductible expenses	(56,662)	(33,572)
40	Non-taxable income from disposal of interest in OAO NOVATEK	15,475	-
13	Non-taxable profits of associated undertakings and jointly controlled entities	15,304	12,511
38	Non-taxable income from swap of assets transaction	-	21,094
34	Non-taxable income from purchase of non-controlling interest in OAO Gaprom neft	-	2,773
	Other non-taxable income	4,914	7,439
	Profit tax expense	**(275,710)**	**(185,642)**

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

(In millions of Russian Roubles)

21 PROFIT TAX (continued)

	31 December 2010	Differences recognition and reversals	31 December 2009	Differences recognition and reversals	31 December 2008
Tax effects of taxable temporary differences:					
Property, plant and equipment	(316,567)	(11,941)	(304,626)	(55,920)	(248,706)
Financial assets	(18,222)	(518)	(17,704)	1,628	(19,332)
Inventories	(2,571)	797	(3,368)	(1,547)	(1,821)
	(337,360)	**(11,662)**	**(325,698)**	**(55,839)**	**(269,859)**
Tax effects of deductible temporary differences:					
Tax losses carry forward	818	(1,421)	2,239	906	1,333
Other deductible temporary differences	3,399	1,464	1,935	(1,312)	3,247
Total net deferred tax liabilities	**(333,143)**	**(11,619)**	**(321,524)**	**(56,245)**	**(265,279)**

Taxable temporary differences recognized in the year ended 31 December 2010 include the effect in amount of RR 12,983 of applying a special accelerated depreciation coefficient of 2 for property, plant and equipment operated in aggressive environment. In 2010 taxable temporary differences in the amount of RR 21,046 were reversed due to deconsolidation of OOO SeverEnergiya (see Note 36).

Taxable temporary differences attributable to property, plant and equipment recognized in the year ended 31 December 2009 include the effect of the acquisition of the controlling interest in Sibir Energy plc (see Note 35) and Naftna Industrija Srbije (see Note 33) in the amount of RR 18,652, OOO SeverEnergiya (see Note 36) in the amount of RR 20,456 and OAO TGC-1 (see Note 37) in the amount of RR 13,837.

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 575,464 and RR 467,160 as of 31 December 2010 and 2009 respectively. A deferred tax liability on these temporary differences was not recognized because management controls the timing of the reversal of the temporary differences and believes that they will not reverse in the foreseeable future.

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

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 2010 and 2009 deferred tax assets on temporary differences in the amount of RR 27,154 and RR 24,129 respectively, have not been recorded because it is not probable that sufficient taxable profit will be available to allow the benefit of that deferred tax asset to be utilised.

22 DERIVATIVE FINANCIAL INSTRUMENTS

As of 31 December 2010 the Group had outstanding commodity contracts measured at fair value. The fair value of derivatives is based on market quotes on measurement date or calculation using an agreed price formula.

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

(In millions of Russian Roubles)

22 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

Fair value	**31 December 2010**	**31 December 2009**
Assets		
Commodity contracts	32,175	30,941
Foreign currency derivatives	6,481	733
Other derivatives	3,625	3,553
	42,281	**35,227**
Liabilities		
Commodity contracts	34,820	22,375
Foreign currency derivatives	487	168
Other derivatives	1,525	2,076
	36,832	**24,619**

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

	31 December 2010				**31 December 2009**			
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	**Total**	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	**Total**
Derivative financial instruments, assets	1,928	37,873	2,480	**42,281**	2,938	32,289	-	**35,227**
Derivative financial instruments, liabilities	2,897	33,367	568	**36,832**	1,042	23,577	-	**24,619**

The maturities of all derivative financial instruments varies from up to three months to five years and more where the derivatives from three months to one year prevail.

23 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2010	**31 December 2009**
Provision for environmental liabilities	101,407	84,272
Provision for pension obligations	84,064	36,651
Other	14,569	22,668
	200,040	**143,591**

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.

(In millions of Russian Roubles)

23 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Principal actuarial assumptions used:

	31 December 2010	31 December 2009
Discount rate (nominal)	7.8%	8.7%
Future salary and pension increases (nominal)	6.5%	6.4%
Turnover ratio p.a.	4.8%	4.8%
Employees average remaining working life (years)	15	15

The assumptions relating to life expectancy at normal pension age were 17 years for a 60 year old man and 28 years for a 55 year old woman in 2010 and 2009.

The Group expected a 10.1% return on the plan assets as of 31 December 2010 and 10.3% return as of 31 December 2009.

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

	31 December 2010		31 December 2009	
	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	(213,128)	(136,821)	(214,342)	(88,808)
Fair value of plan assets	438,115	-	513,763	-
	224,987	**(136,821)**	**299,421**	**(88,808)**
Unrecognised net actuarial losses (gains)	143,212	1,630	149,772	(2,852)
Unrecognised past service costs	-	51,127	-	55,009
Unrecognised plan assets above the limit	(113,895)	-	(205,211)	-
Net balance asset (liability)	**254,304**	**(84,064)**	**243,982**	**(36,651)**

The net pension assets of RR 254,304 related to benefits provided by the pension plan NPF Gazfund as of 31 December 2010 are included within other non-current assets.

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

	Year ended 31 December 2010	Year ended 31 December 2009
Current service cost	13,397	12,804
Interest on obligation	26,374	19,537
Expected return on plan assets	(52,918)	(22,921)
Net actuarial losses (gains) recognized for the year	165,571	(195,824)
Past service cost	3,882	1,679
Effect of asset restriction	(91,316)	205,211
Total operating expenses included in staff costs	**64,990**	**20,486**

The total amount of benefits paid for 2010 and 2009 were equal to RR 14,003 and RR 8,816 respectively.

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

	31 December 2010		31 December 2009	
	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits
Defined benefit obligation at the beginning of the reporting year	**214,342**	**88,808**	**182,590**	**49,687**
Service cost	7,593	5,804	6,878	5,926
Interest cost	18,648	7,726	15,401	4,136
Actuarial (gains) losses	(11,300)	46,970	14,562	(1,159)
Past service cost	-	-	-	33,045
Benefits paid	(5,878)	(8,125)	(5,089)	(3,874)
Other movements	(10,277)	(4,362)	-	-
Consolidation of OAO TGC-1 (see Note 37)	-	-	-	1,047
Defined benefit obligation at the end of the reporting year	**213,128**	**136,821**	**214,342**	**88,808**

(In millions of Russian Roubles)

23 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Changes in the plan assets are as follows:

	31 December 2010		31 December 2009	
	Funded benefits - provided through NPF Gazfund	Other benefits	Funded benefits - provided through NPF Gazfund	Other benefits
Fair value of plan assets at the beginning of the reporting year	**513,763**	**-**	**257,046**	**-**
Expected return	52,918	-	22,921	-
Actuarial (losses) gains	(127,823)	-	230,184	-
Contributions by employer	5,135	8,125	8,701	3,727
Benefits paid	(5,878)	(8,125)	(5,089)	(3,727)
Fair value of plan assets at the end of the reporting year	**438,115**	**-**	**513,763**	**-**

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

	31 December 2010	31 December 2009
Equities	80%	83%
Other assets	20%	17%
	100%	**100%**

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

For the year ended 31 December 2010 actual return on plan assets was a loss of RR 74,905, primarily caused by the change of the fair value of plan assets.

Funded status of the plan:

	31 December			
	2010	2009	2008	2007
Defined benefit obligation	(213,128)	(214,342)	(182,590)	(207,880)
Plan assets	438,115	513,763	257,046	583,221
Surplus	**224,987**	**299,421**	**74,456**	**375,341**

For 2010, 2009, 2008 and 2007, experience adjustments on plan assets amounted to RR 127,823 loss, RR 230,184 gain, RR 358,806 loss and RR 33,514 loss and experience adjustments on plan liabilities amounted to RR 51,447 gain, RR 36,185 loss, RR 124,592 loss 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 2010 and 2009 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Roubles.

Dividends

In 2010, OAO Gazprom accrued and paid dividends in the nominal amount of 2.39 Roubles per share for the year ended 31 December 2009. In 2009, OAO Gazprom accrued and paid dividends in the nominal amount of 0.36 Roubles per share for the year ended 31 December 2008.

Treasury shares

As of 31 December 2010 and 2009, subsidiaries of OAO Gazprom held 723 million and 724 million of the ordinary shares of OAO Gazprom, respectively. Shares of the Group held by the subsidiaries represent 3.1% of OAO Gazprom shares as of 31 December 2010 and 2009. The Group management controls the voting rights of these shares.

In October 2009 the Group completed the agreement with E.ON Ruhrgas AG to swap 25% share in OAO Severneftegazprom less three ordinary shares, three preference shares without voting right of OAO Severneftegazprom and a preference share in ZAO Gazprom YRGM Development. In exchange the Group received 49% share in ZAO Gerosgaz, which led to the increase in OAO Gazprom’s treasury shares

(In millions of Russian Roubles)

24 EQUITY (continued)

by an additional 2.93% reflected at market value as of the date of the swap closure (see Note 38).

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 40,764 and RR 51,045 as of 31 December 2010 and 2009, 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 756 and RR 1,647 have been transferred to governmental authorities during the years ended 31 December 2010 and 2009 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 2010 year, the statutory profit of the parent company was RR 364,577. 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.

25 SALES

	Year ended 31 December	
	2010	**2009**
Gas sales (including excise tax and custom duties, net of VAT) to customers in:		
Russian Federation	636,843	503,121
Former Soviet Union (excluding Russian Federation)	493,806	363,400
Europe and other countries	1,357,852	1,396,415
Gross sales of gas	2,488,501	2,262,936
Excise tax	-	(220)
Customs duties	(302,296)	(344,213)
Net sales of gas	2,186,205	1,918,503
Sales of refined products to customers in:		
Russian Federation	412,208	297,885
Former Soviet Union (excluding Russian Federation)	36,042	35,951
Europe and other countries	260,812	206,669
Total sales of refined products	709,062	540,505
Sales of crude oil and gas condensate to customers in:		
Russian Federation	23,148	18,127
Former Soviet Union (excluding Russian Federation)	25,967	26,562
Europe and other countries	146,959	131,714
Sales of crude oil and gas condensate	196,074	176,403
Electric and heat energy sales:		
Russian Federation	281,853	188,994
Former Soviet Union (excluding Russian Federation)	3,476	3,706
Europe and other countries	3,326	126
Total electric and heat energy sales	288,655	192,826
Gas transportation sales:		
Russian Federation	91,353	64,597
Former Soviet Union (excluding Russian Federation)	1,278	966
Europe and other countries	-	-
Total gas transportation sales	92,631	65,563
Other revenues:		
Russian Federation	108,933	82,930
Former Soviet Union (excluding Russian Federation)	7,683	6,664
Europe and other countries	7,811	7,607
Total other revenues	124,427	97,201
Total sales	**3,597,054**	**2,991,001**

(In millions of Russian Roubles)

26 OPERATING EXPENSES

	Year ended 31 December	
	2010	**2009**
Purchased gas and oil	616,407	607,310
Staff costs	342,846	255,977
Taxes other than on income	289,978	244,748
Transit of gas, oil and refined products	260,776	220,961
Depreciation	243,615	221,197
Repairs and maintenance	159,894	138,779
Materials	83,043	83,576
Cost of goods for resale, including refined products	70,072	52,203
Electricity and heating expenses	60,386	43,375
Transportation services	27,130	17,952
Social expenses	25,635	20,639
Research and development expenses	24,158	28,524
Rental expenses	20,019	19,912
Insurance expenses	15,685	16,315
Exchange rate differences on operating items	12,876	(44,223)
Processing services	8,442	9,744
Other	179,815	155,843
Total operating expenses	**2,440,777**	**2,092,832**

Staff costs include RR 64,990 and RR 20,486 of expenses associated with pension obligations for the years ended 31 December 2010 and 2009, respectively (see Note 23).

Gas purchase expenses included within purchased oil and gas amounted to RR 401,725 and RR 443,315 for the years ended 31 December 2010 and 2009, respectively.

Taxes other than on income consist of:

	Year ended 31 December	
	2010	**2009**
Natural resources production tax	170,455	144,908
Excise tax	62,338	53,024
Property tax	42,034	36,034
Other taxes	15,151	10,782
	289,978	**244,748**

27 FINANCE INCOME AND EXPENSES

	Year ended 31 December	
	2010	**2009**
Exchange gains	150,384	338,976
Interest income	20,692	36,762
Gains on and extinguishment of restructured liabilities	765	61
Total finance income	**171,841**	**375,799**

	Year ended 31 December	
	2010	**2009**
Exchange losses	130,433	367,320
Interest expense	38,714	74,167
Total finance expenses	**169,147**	**441,487**

(In millions of Russian Roubles)

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

		Year ended 31 December	
		2010	2009
	RAR net profit for the year per consolidated statutory accounts	**806,278**	**649,659**
	Effects of IFRS adjustments:		
	Reclassification of revaluation of available for sale financial assets	(12,832)	(33,805)
	Write-off of deferred tax liability related to revaluation of OAO Gazprom shares, accounted on balance of ZAO Gerosgaz	(22,942)	-
	Elimination of gains arising from change in fair value of investment in OAO NOVATEK recognized for RAR purposes	(49,915)	(84,408)
40	Gain on disposal of interest in OAO NOVATEK	77,375	-
	Difference in share of net income of associated undertakings and jointly controlled entities	(10,328)	5,050
	Differences in depreciation	182,049	147,856
	Write-off of long term financial assets	(5,051)	-
	Reversal of goodwill depreciation	46,847	37,116
	Gain on purchase of non-controlling interest in OAO Gazprom neft	-	13,865
	Loan interest capitalized	55,023	40,614
23	Impairment and other provisions, including provision for pension obligations	(61,613)	(17,313)
	Accounting of finance lease	8,883	7,569
	Accounting for Gazprombank group	16,895	14,727
	Write-off of research and development expenses capitalized for RAR purposes	(10,462)	(8,935)
	Fair value adjustment on commodity contracts	(9,710)	3,567
	Differences in losses on fixed assets disposal	562	7,243
	Other effects	(13,066)	10,988
	IFRS profit for the year	**997,993**	**793,793**

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

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

There were 22.9 and 23.5 billion weighted average shares outstanding for the years ended 31 December 2010 and 2009 respectively.

There are no dilutive financial instruments outstanding.

(In millions of Russian Roubles)

30 NET CASH PROVIDED BY OPERATING ACTIVITIES

	Year ended 31 December 2010	Year ended 31 December 2009
Profit before profit tax	**1,273,703**	**979,435**
Adjustments to profit before profit tax		
Depreciation	243,615	221,197
Gain from disposal of interest in OAO NOVATEK	(77,375)	-
Gain on purchase of non-controlling interest in OAO Gazprom neft	-	(13,865)
Gain from swap of assets transaction	-	(105,470)
Increase in provisions	113,701	65,914
Net unrealised foreign exchange (gain) loss	(19,951)	28,344
Interest expense	38,714	74,167
Gains on and extinguishment of restructured liabilities	(765)	(61)
Losses on disposal of property, plant and equipment	18,726	6,477
Interest income	(20,692)	(36,762)
Gains on disposal of available-for-sale financial assets	(3,292)	(6,319)
Derivatives loss (gain)	9,710	(3,371)
Share of net income of associated undertakings and jointly controlled entities	(76,520)	(62,557)
Total effect of adjustments	225,871	167,694
Increase in long-term assets	(36,381)	(3,940)
Decrease in long-term liabilities	3,541	597
	1,466,734	1,143,786
Changes in working capital		
Decrease (increase) in accounts receivable and prepayments	84	(132,167)
(Increase) decrease in inventories	(36,054)	1,844
Increase in other current assets	(19,759)	(28,473)
Increase (decrease) in accounts payable and accrued charges, excluding interest, dividends and capital construction	177,542	(20,694)
Settlements on taxes payable (other than profit tax)	115,455	102,545
Decrease (increase) in available-for-sale financial assets and financial assets held for trading	16,277	(26,326)
Total effect of working capital changes	253,545	(103,271)
Profit tax paid	(260,163)	(143,361)
Net cash provided by operating activities	**1,460,116**	**897,154**

Total taxes and other similar payments paid in cash for the years 2010 and 2009:

	Year ended 31 December 2010	Year ended 31 December 2009
Customs duties	474,682	564,722
Profit tax	260,163	143,361
Natural resources production tax	172,507	139,249
VAT	132,015	103,160
Excise	59,611	49,907
Property tax	42,514	36,203
Unified social tax	38,127	31,049
Personal income tax	34,552	29,399
Other	20,093	14,557
Total taxes paid	**1,234,264**	**1,111,607**

(In millions of Russian Roubles)

31 SUBSIDIARY UNDERTAKINGS

Principal subsidiaries

Subsidiary undertaking	Location	% of share capital as of 31 December* 2010	2009
OOO Aviapredpriyatie Gazprom avia	Russia	100	100
OAO Arkticheskaya gazovaya kompaniya****	Russia	-	100
ZAO ArmRosgazprom	Armenia	80	80
Vemex s.r.o	Czech Republic	50	50
OAO Vostokgazprom	Russia	100	100
OOO Gazovie Magistraly Tumeny	Russia	100	-
OOO Gazprom burenie	Russia	100	100
OOO Gazprom VNIIGAZ	Russia	100	100
GAZPROM Germania GmbH	Germany	100	100
Gazprom Gerosgaz Holding B.V.	Netherlands	100	100
Gazprom Global LNG Ltd.	United Kingdom	100	100
OOO Gazprom dobycha Astrakhan	Russia	100	100
OOO Gazprom dobycha Krasnodar	Russia	100	100
OOO Gazprom dobycha Krasnoyarsk	Russia	100	100
OOO Gazprom dobycha Nadym	Russia	100	100
OOO Gazprom dobycha Noyabrsk	Russia	100	100
OOO Gazprom dobycha Orenburg	Russia	100	100
OOO Gazprom dobycha Urengoy	Russia	100	100
OOO Gazprom dobycha shelf	Russia	100	100
OOO Gazprom dobycha Yamburg	Russia	100	100
Gazprom EP International B.V.	Netherlands	100	100
OOO Gazprom invest Vostok	Russia	100	100
OOO Gazprom invest Zapad	Russia	100	100
ZAO Gazprom invest Yug	Russia	100	100
OOO Gazprom investholding	Russia	100	100
OOO Gazprom inform	Russia	100	-
OOO Gazprom komplektaciya	Russia	100	100
Gazprom Libyen Verwaltungs GmbH	Germany	100	100
Gazprom Marketing and Trading Ltd.	United Kingdom	100	100
OOO Gazprom mezhregiongaz (OOO Mezhregiongaz)	Russia	100	100
ZAO Gazprom neft Orenburg	Russia	100	100
Gazprom neft Trading GmbH **	Austria	100	100
OOO Gazprom neft shelf	Russia	100	100
OAO Gazprom neft	Russia	96	96
OOO Gazprom pererabotka	Russia	100	100
OOO Gazprom podzemremont Orenburg	Russia	100	100
OOO Gazprom podzemremont Urengoy	Russia	100	100
OOO Gazprom PKhG	Russia	100	100
Gazprom Sakhalin Holding B.V.	Netherlands	100	100
OOO Gaprom torgservis	Russia	100	100
OOO Gazprom transgas Volgograd	Russia	100	100
OOO Gazprom transgas Ekaterinburg	Russia	100	100
OOO Gazprom transgas Kazan	Russia	100	100
OOO Gazprom transgas Makhachkala	Russia	100	100
OOO Gazprom transgas Moskva	Russia	100	100
OOO Gazprom transgas Nizhny Novgorod	Russia	100	100
OOO Gazprom transgas Samara	Russia	100	100
OOO Gazrpom transgas St. Petersburg	Russia	100	100
OOO Gazprom transgas Saratov	Russia	100	100
OOO Gazprom transgaz Stavropol	Russia	100	100
OOO Gazprom transgas Surgut	Russia	100	100

(In millions of Russian Roubles)

31 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Location	% of share capital as of 31 December* 2010	2009
OOO Gazprom transgas Tomsk	Russia	100	100
OOO Gazprom transgas Ufa	Russia	100	100
OOO Gazprom transgas Ukhta	Russia	100	100
OOO Gazprom transgas Tchaikovsky	Russia	100	100
OOO Gazprom transgas Yugorsk	Russia	100	100
OOO Gazprom transgas-Kuban	Russia	100	100
Gazprom Finance B.V.	Netherlands	100	100
OOO Gazprom tsentrremont	Russia	100	100
OOO Gazprom export	Russia	100	100
OOO Gazprom energo	Russia	100	100
OOO Gazprom energoholding	Russia	100	100
OOO Gazpromneft-Vostok **	Russia	100	100
ZAO Gazpromneft-Kuzbass **	Russia	100	100
OAO Gazpromneft-Noyabrskneftegaz **	Russia	100	100
OAO Gazpromneft-Omsk **	Russia	100	100
OAO Gazpromneft-Omskiy NPZ **	Russia	100	100
ZAO Gazpromneft-Severo-Zapad **	Russia	100	100
OOO Gazpromneftfinans **	Russia	100	100
OOO Gazpromneft-Khantos**	Russia	100	100
OOO Gazpromneft-Centr **	Russia	100	100
OOO GazpromPurInvest	Russia	100	100
OAO Gazpromregiongaz	Russia	100	100
OOO Gazpromtrans	Russia	100	100
OAO Gazpromtrubinvest	Russia	100	100
OOO Gazflot	Russia	100	100
ZAO Gazenergoprombank*****	Russia	-	73
OOO Georesurs	Russia	100	100
ZAO Gerosgaz	Russia	-	100
OAO Daltransgaz	Russia	100	73
OOO Zapolyarneft**	Russia	100	100
OAO Zapsibgazprom	Russia	77	77
ZMB (Schweiz) AG	Switzerland	100	100
ZAO Kaunasskaya power station	Lithuania	99	99
OAO Krasnoyarskgazprom	Russia	75	75
OAO Moscovsky NPZ **	Russia	77	77
OAO Mosenergo	Russia	53	53
OAO Neftegastehnologiya****	Russia	-	100
Naftna Industrija Srbije **	Serbia	51	51
OOO NK Sibneft-Yugra **	Russia	100	100
OOO Novourengoysky GCC	Russia	100	100
OAO WGC-2	Russia	58	58
OAO WGC-6	Russia	61	61
ZAO Purgaz	Russia	51	51
OAO Regiongazholding	Russia	56	56
ZAO Rosshelf	Russia	57	57
ZAO RSh-Centr	Russia	100	100
OAO Severneftegazprom ***	Russia	50	50
OOO SeverEnergiya****	Russia	-	51
Sibir Energy Ltd (Sibir Energy plc)**	United Kingdom	78	55
OOO Sibmetahim	Russia	100	100
AKB Soyuz (OAO)	Russia	-	75
OAO Spetsgazavtotrans	Russia	51	51
OAO TGC-1	Russia	52	52
OAO Tomskgazprom	Russia	100	100

(In millions of Russian Roubles)

31 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Location	% of share capital as of 31 December* 2010	2009
ZAO Urengoil Inc.****	Russia	-	100
OOO Faktoring-Finance	Russia	90	90
OAO Tsentrgaz	Russia	100	100
OAO Tsentrenergogaz	Russia	66	66
ZAO Yamalgazinvest	Russia	100	100

* Cumulative share of Group companies in charter capital of investments.
** Subsidiaries of OAO Gazprom neft. The company Sibir Energy plc was re-registered from being a public company to a private company in 2011.
*** Group's voting shares.
**** In November 2010 the Group sold its entire 51% controlling interest in OOO SeverEnergiya to OOO Yamal razvitie. As the result, the Group has lost control over OOO SeverEnergiya and its subsidiaries (see note 36).
***** In April 2010 ZAO Gazenergoprombank was reorganized in the form of the merger to OAO AB Rossiya (see note 39).

32 NON-CONTROLLING INTEREST

Notes		Year ended 31 December 2010	2009
	Non-controlling interest at the beginning of the year	322,806	307,984
	Non-controlling interest share of net profit of subsidiary undertakings	29,436	14,208
34	Purchase of non-controlling interest in OAO Gazprom neft	-	(152,392)
35	Acquisition of the controlling interest in Sibir Energy plc	(17,026)	56,724
37	Acquisition of the controlling interest in OAO TGC-1	-	51,148
36	Acquisition of the controlling interest in OOO SeverEnergiya	-	43,578
	Disposal of the controlling interest in OOO SeverEnergiya	(41,677)	-
	Purchase of the non-controlling interest in OAO Daltransgaz	(3,619)	-
	Changes in the non-controlling interest as a result of other disposals and acquisitions	(3,074)	7,689
	Dividends	(1,110)	(1,442)
	Translation difference	874	(4,796)
	Gains arising from change in fair value of available-for-sale financial assets, net of tax	-	105
	Non-controlling interest at the end of the year	**286,610**	**322,806**

33 ACQUISITION OF THE CONTROLLING INTEREST IN NAFTNA INDUSTRIJA SRBIJE (NIS)

On 3 February, 2009, the Group acquired a 51% interest in NIS for RR 18.5 billion (Euro 400 million). As part of the purchase agreement the Group pledged to invest Euro 547 million (approximately RR 24.6 billion as at acquisition date) to rebuild and upgrade NIS's refining facilities by 2012. NIS is one of the largest vertically integrated oil companies in Central Europe, operating two oil refineries in Pancevo and Novi Sad, Serbia with a total processing capacity of 7.3 million tons per year. NIS also has crude oil production of approximately 0.6 million tons per year from its oil and gas exploration and production operations in Serbia and operates a network of retail stations throughout Serbia.

As of 31 March 2010 the Group has finalized their assessment of the estimated fair values of certain assets and liabilities acquired in accordance with IFRS 3 "Business Combinations". There were no changes to the estimated fair values as of 31 December 2009.

(In millions of Russian Roubles)

33 ACQUISITION OF THE CONTROLLING INTEREST IN NAFTNA INDUSTRIJA SRBIJE (NIS) (continued)

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

	Book value	Attributable fair value
Cash and cash equivalents	794	794
Accounts receivable and prepayments	7,796	7,796
Inventories	8,496	8,496
Other current assets	1,302	1,302
Current assets	**18,388**	**18,388**
Property, plant and equipment	58,896	53,148
Other non-current assets	5,429	5,604
Non-current assets	**64,325**	**58,752**
Total assets	**82,713**	**77,140**
Accounts payable and accrued charges	7,382	7,382
Current profit tax payable	92	92
Other taxes payable	3,333	3,333
Short-term borrowings and current portion of long-term borrowings	23,342	23,342
Current liabilities	**34,149**	**34,149**
Long-term borrowings	6,741	6,741
Provisions for liabilities and charges	6,163	10,434
Deferred tax liabilities	1,654	1,934
Other non-current liabilities	237	237
Non-current liabilities	**14,795**	**19,346**
Total liabilities	**48,944**	**53,495**
Net assets at acquisition date	**33,769**	**23,645**
Fair value of net assets at acquisition date		**23,645**
Fair value of the Group's interest		12,059
Purchase consideration		18,489
Goodwill		**6,430**

34 PURCHASE OF NON-CONTROLLING INTEREST IN OAO GAZPROM NEFT

In April 2009 the Group purchased an additional 20% interest in OAO Gazprom neft for USD 4.1 billion (approximately RR 138 billion) from ENI S.p.A. As a result of this transaction, the Group has increased its interest in OAO Gazprom neft to 95.68%. The difference between the carrying value of the acquired non-controlling interest (approximately RR 152 billion) and purchase consideration was recognized as a gain in the amount of RR 14 billion in the consolidated statement of comprehensive income.

35 ACQUISITION OF THE CONTROLLING INTEREST IN SIBIR ENERGY PLC

In the period from 23 April 2009, being the date of the Group's first acquisition of shares in Sibir Energy plc, until 23 June 2009, the Company invested GBP 1,057 million (approximately RR 53 billion) to acquire 54.71% of the ordinary shares of Sibir Energy plc. This transaction provided the Group with effective control over Sibir Energy plc and accordingly Sibir Energy plc became a subsidiary of the Group at this date.

Sibir Energy plc is a vertically integrated oil company operating in the Russian Federation. Sibir Energy plc's primary upstream assets include OAO Magma Oil Company (95% Sibir Energy plc owned) and a 50% interest in Salym Petroleum Development N.V. (a joint venture with Royal Dutch Shell). Sibir Energy plc's upstream assets are located in Khanty-Mansiysk Autonomous Region and comprise annual production interest of over 10,600 tons of oil per day.

(In millions of Russian Roubles)

35 ACQUISITION OF THE CONTROLLING INTEREST IN SIBIR ENERGY PLC (continued)

Sibir Energy plc also holds a 38.63% stake in the OAO Moskovsky NPZ and a network of 134 retail stations in Moscow and the Moscow region through OAO Moscow Fuelling Company and OAO Mosnefteproduct.

As a result of the acquisition of the ordinary shares of Sibir Energy plc, the Group also obtained control over OAO Moskovsky NPZ, having increased its cumulative share in OAO Moskovsky NPZ from 38.63% to 77.26%. The Group previously accounted for its 38.63% interest in OAO Moskovsky NPZ as equity investment. As a result of the Group obtaining control over OAO Moskovsky NPZ, the Group's previously held 38.63% interest was re-measured to fair value, resulting in a revaluation surplus of RR 9,911 recognised in other comprehensive income. The purchase consideration includes approximately RR 15 billion representing the cost of the purchase of the previous equity interest.

In accordance with IFRS 3 "Business Combinations", the Group recognized the acquired assets and liabilities assumed based upon their fair values. In the consolidated interim condensed financial information, management revised the preliminary assessment disclosed in the consolidated financial statements for the year ended 31 December 2009. As a result, the fair value of accounts receivable and prepayments and other taxes payable increased by RR 3,936 and RR 906, respectively, with the responding decrease of goodwill. Revisions made to the preliminary assessment applied in the consolidated interim condensed financial information were reflected as of the acquisition date. As of 30 June 2010 the Group finalized assessment of the estimated fair value of certain assets and liabilities acquired in accordance with IFRS 3 "Business Combinations".

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

	Book value	**Attributable fair value**
Cash and cash equivalents	5,643	5,643
Accounts receivable and prepayments	20,679	21,456
Inventories	1,884	1,884
Other current assets	429	616
Current assets	**28,635**	**29,599**
Property, plant and equipment	23,799	94,147
Investments in associated undertakings and jointly controlled entities	32,946	38,444
Long-term accounts receivable and prepayments	11,852	11,852
Other non-current assets	851	1,116
Non-current assets	**69,448**	**145,559**
Total assets	**98,083**	**175,158**
Accounts payable and accrued charges	9,915	10,259
Current profit tax payable	73	73
Other taxes payable	4,062	4,062
Short-term borrowings and current portion of long-term borrowings	7,276	7,276
Current liabilities	**21,326**	**21,670**
Long-term borrowings	5,438	5,438
Deferred tax liabilities	1,671	16,718
Provisions for liabilities and charges	300	300
Other non-current liabilities	6	443
Non-current liabilities	**7,415**	**22,899**
Total liabilities	**28,741**	**44,569**
Net assets at acquisition date	**69,342**	**130,589**
Non-controlling interest		(1,577)
Fair value of net assets at acquisition date		**129,012**
Fair value of the Group's interest		73,865
Revaluation surplus		9,911
Purchase consideration		68,506
Goodwill		**4,552**

(In millions of Russian Roubles)

35 ACQUISITION OF THE CONTROLLING INTEREST IN SIBIR ENERGY PLC (continued)

In May 2010 the Group increased its interest in Sibir Energy plc from 54.71% to 80.37% through obtaining of control over a company, the major asset of which was a 25.66% interest in Sibir Energy plc. In addition, the Group's effective interest in OAO Moskovsky NPZ increased from 57.17% to 66.66%. The Group has accounted for the transaction as an acquisition of a non-controlling interest where control is maintained. The difference between the non-controlling interest acquired and consideration paid at the date of acquisition of RR 2,499 has been recognized in equity and is included within retained earnings and other reserves.

In July 2010 the Group sold 3.02% of the ordinary shares of Sibir Energy plc to OAO Central Fuel Company which is controlled by the Government of Moscow. As a result of these transactions the Group's interest in Sibir Energy plc equals to 77.35%.

36 ACQUISITION AND SUBSEQUENT DECONSOLIDATION OF THE CONTROLLING INTEREST IN OOO SEVERENERGIYA

In September 2009 the Group acquired a 51% interest in OOO SeverEnergiya. The purchase consideration is USD 1.6 billion (approximately RR 47 billion). In September 2009, the Group transferred the first installment in the amount of USD 0.4 billion (RR 11.6 billion). The remaining part was paid 31 March 2010.

These transactions provided the Group with effective control over OOO SeverEnergiya and its subsidiaries: OAO Arkticheskaya gazovaya kompaniya, ZAO Urengoil Inc. and OAO Neftegastehnologiya. As a result of this transaction the Group included these companies as subsidiaries into consolidated financial statements.

OOO SeverEnergiya and its subsidiaries hold exploration and production rights in hydrocarbon reserves in Russian Federation in Western Siberia.

In accordance with IFRS 3 "Business Combinations", the Group recognized the acquired assets and liabilities based upon their fair values. As of 31 December 2009 the Group finalized their assessment of the estimated fair values of assets and liabilities acquired in accordance with IFRS 3 "Business Combinations".

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

	Book value	Attributable fair value
Cash and cash equivalents	821	821
Accounts receivable and prepayments	786	786
Inventories	1,039	1,039
VAT recoverable	1,652	1,652
Other current assets	1,242	1,242
Current assets	**5,540**	**5,540**
Property, plant and equipment	11,242	113,524
Investments in associated undertakings and jointly controlled entities	1,316	1,316
Long-term accounts receivable and prepayments	544	544
Deferred tax assets	821	-
Other non-current assets	634	634
Non-current assets	**14,557**	**116,018**
Total assets	**20,097**	**121,558**
Accounts payable and accrued charges	928	928
Current profit tax payable	15	15
Short-term borrowings and current portion of long-term borrowings	3,999	3,999
Short-term promissory notes payable	8,046	8,046
Current liabilities	**12,988**	**12,988**
Deferred tax liabilities	-	19,635
Non-current liabilities	**-**	**19,635**
Total liabilities	**12,988**	**32,623**
Net assets at acquisition date	**7,109**	**88,935**

(In millions of Russian Roubles)

36 ACQUISITION AND SUBSEQUENT DECONSOLIDATION OF THE CONTROLLING INTEREST IN OOO SEVERENERGIYA (continued)

	Book value	Attributable fair value
Fair value of net assets at acquisition date		**88,935**
Fair value of the Group's interest		45,357
Purchase consideration[1]		46,387
Goodwill		**1,030**

[1] Purchase consideration includes the amount of RR 11.6 billion which was already paid in cash and present value of remaining part in the amount of RR 34.8 billion paid on 31 March 2010.

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

37 ACQUISITION OF THE CONTROLLING INTEREST IN OAO TGC-1

As of 31 December 2009, the Group completed a series of transactions and obtained the controlling interest in OAO TGC-1. The Group accounted for 28.7% interest in OAO TGC-1 owned prior to the fourth quarter of 2009 as an investment in associated undertakings and jointly controlled entities that was accounted as equity investment. The Group's controlling interest of 51.8% have been accumulated through the acquisition of OOO Gazprom investproekt (former name - OOO Russian Energy Projects) which owned 19.5% interest in OAO TGC-1 in November 2009 and acquisition of additional 3.6% interest in OAO TGC-1 in the fourth quarter 2009.

In accordance with IFRS 3 “Business Combinations”, the Group recognized the acquired assets and liabilities based upon their fair values. In the interim condensed financial information for the three months ended 31 March 2010, management revised the preliminary assessment disclosed in consolidated financial statements for the year ended 31 December 2009. As a result, the fair value of items of property, plant and equipment and deferred tax liability has been increased by RR 5,305 and RR 1,061, respectively, with a corresponding decrease in goodwill. Revisions made to the preliminary assessment applied in consolidated financial statements were reflected as of the acquisition date. As of 31 March 2010 the Group has finalized assessment of the fair values of the assets and liabilities acquired in accordance with IFRS 3 “Business Combinations”.

The total purchase consideration primarily includes the cost of shares acquired in the fourth quarter 2009 in amount of RR 28.3 billion and the fair value of the equity investment of RR 33.2 billion.

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

	Book value	Attributable fair value
Cash and cash equivalents	683	683
Accounts receivable and prepayments	6,366	6,366
VAT recoverable	2,807	2,807
Inventories	2,132	2,132
Other current assets	48	48
Current assets	**12,036**	**12,036**
Property, plant and equipment	78,710	126,679
Long-term accounts receivable and prepayments	6,418	6,418
Other non-current assets	956	956
Non-current assets	**86,084**	**134,053**
Total assets	**98,120**	**146,089**
Accounts payable and accrued charges	9,568	9,568
Short-term borrowings and current portion of long-term borrowings	6,918	6,918
Other current liabilities	798	798

(In millions of Russian Roubles)

37 ACQUISITION OF THE CONTROLLING INTEREST IN OAO TGC-1 (continued)

	Book value	Attributable fair value
Current liabilities	**17,284**	**17,284**
Long-term borrowings	8,499	8,499
Deferred tax liabilities	3,852	13,445
Other non-current liabilities	773	773
Non-current liabilities	**13,124**	**22,717**
Total liabilities	**30,408**	**40,001**
Net assets at acquisition date	**67,712**	**106,088**
Fair value of net assets at acquisition date		**106,088**
Fair value of the Group’s interest		54,940
Purchase consideration		61,538
Goodwill		**6,598**

38 SWAP OF ASSETS WITH E.ON RUHRGAS AG

On 30 October 2009 the Group closed the swap agreement with E.ON Ruhrgas AG. As a result thereof, the Group swapped its 25% share in OAO Severneftegazprom less three ordinary shares, three preference shares without voting right of OAO Severneftegazprom and a preference share in ZAO Gazprom YRGM Development for a 49% interest in ZAO Gerosgaz and a cash compensation of Euro 67 million. OAO Severneftegazprom holds the license for the development of Yuzhno-Russkoe oil and gas field in Siberia. ZAO Gerosgaz is the company holding the investment in 2.93% shares of OAO Gazprom. As a result of the swap the Group recognised the gain on disposal of interest in OAO Severneftegazprom and ZAO Gazprom YRGM Development in consolidated statement of comprehensive income in the amount of RR 105,470, being the difference between carrying amount of transferred assets and respective fair value of ZAO Gerosgaz shares acquired. Treasury shares were recognized as deduction from equity at market value as at the date of the swap closure.

39 DECONSOLIDATION OF ZAO GAZENERGOPROMBANK

On 29 March 2010 the respective Boards of directors of ZAO Gazenergoprombank, banking subsidiary of the Group, and OAO AB Rossiya, a bank not related to the Group, approved a reorganization in the form of the merger of ZAO Gazenergoprombank to OAO AB Rossiya. As a result of the decision, assets and liabilities of ZAO Gazenergoprombank as of 31 March 2010 in the amount of RR 137,700 and RR 121,498, respectively, were classified as held for sale. Those assets and liabilities were shown net of RR 45,222 and RR 46,858 of intercompany balances, respectively.

On 30 April 2010 shareholders of both banks approved the reorganization in the form of the merger of ZAO Gazenergoprombank to OAO AB Rossiya. According to the merger agreement, all assets and liabilities of ZAO Gazenergoprombank were transferred to OAO AB Rossiya. In exchange for its existing controlling interest in ZAO Gazenergoprombank, the Group received a non-controlling interest in OAO AB Rossiya. According to the terms of the merger agreement the Group lost the ability to control the financial and operating policies of ZAO Gazenergoprombank on 30 April 2010 but received non-controlling interest in OAO AB Rossiya after completion of procedures required by the Central Bank of Russia. As a result, ZAO Gazenergoprombank was deconsolidated starting 30 April 2010 and recognized at fair value of RR 8,514. This investment was classified within other non-current assets. The deconsolidation of ZAO Gazenergoprombank did not have a material impact on the consolidated statement of comprehensive income.

In August 2010 the reorganization in the form of the merger of ZAO Gazenergoprombank to OAO AB Rossiya was finalized. As a result of the reorganization the Group received non-controlling interest in OAO AB Rossiya recognized at fair value of RR 8,514 and classified as long-term available-for-sale financial assets.

40 DISPOSAL OF INTEREST IN OAO NOVATEK

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

(In millions of Russian Roubles)

40 DISPOSAL OF INTEREST IN OAO NOVATEK (continued)

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

41 RELATED PARTIES

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

Government

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

As of 31 December 2010 38.373% of OAO Gazprom issued shares were directly owned by the Government. Another 11.629% were owned by Government controlled entities. The Government does not prepare financial statements for public use. Following the General Meeting of Shareholders in June 2009, the 11 seats on the Board of Directors include six State representatives, two independent directors and management representatives. 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 2010 and 2009 respectively, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

	As of 31 December 2010		Year ended 31 December 2010	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with the Government				
Current profit tax	14,265	45,649	-	249,387
Insurance contributions to non-budget funds	753	1,438	-	35,950
VAT recoverable/payable	299,121	32,365	-	-
Customs duties	44,197	-	-	-
Other taxes	1,689	38,117	-	289,978
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	3,100	-
Electricity and heating sales	-	-	189,706	-
Other services sales	-	-	2,086	-
Accounts receivable	26,977	-	-	66,093
Oil transportation expenses	-	-	-	-
Accounts payable	-	9,289	-	-
Loans	-	48,710	-	-
Interest expense	-	-	-	7,821
Short-term financial assets	517	-	-	-
Available-for-sale long-term financial assets	54,718	-	-	-

(In millions of Russian Roubles)

41 RELATED PARTIES (continued)

	As of 31 December 2009		Year ended 31 December 2009	
	Assets	**Liabilities**	**Revenues**	**Expenses**
Transactions and balances with the Government				
Current profit tax	18,418	37,267	-	182,255
Unified social tax	407	1,626	-	29,806
VAT recoverable/payable	262,565	28,239	-	-
Customs duties	142,041	-	-	-
Other taxes	2,804	42,109	-	244,748
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	17,198	-
Electricity and heating sales	-	-	118,659	-
Other services sales	-	-	3,371	-
Accounts receivable	23,562	-	-	-
Oil transportation expenses	-	-	-	54,578
Accounts payable	-	8,981	-	-
Loans	-	148,641	-	-
Interest expense	-	-	-	14,715
Short-term financial assets	14,577	-	-	-
Available-for-sale long-term financial assets	47,165	-	-	-

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 2010 and 2009. See Note 12 for net book values as of December 2010 and 2009 of social assets vested to the Group at privatisation.

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of OAO Gazprom) short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of Group companies, amounted to approximately RR 1,561 and RR 1,382 for the years ended 31 December 2010 and 2009 respectively. Such amounts include personal income tax and 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 after retirement.

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

Associated undertakings and jointly controlled entities

For the years ended 31 December 2010 and 2009 and as of 31 December 2010 and 2009 the Group had the following significant transactions with associated undertakings and jointly controlled entities:

(In millions of Russian Roubles)

41 RELATED PARTIES (continued)

	Year ended 31 December	
	2010	**2009**
Gas sales	**Revenues**	
OAO Beltransgaz	122,983	83,306
Wintershall Erdgas Handelshaus GmbH & Co. KG (WIEH)	77,487	104,370
ZAO Panrusgaz	69,708	64,068
WINGAS GmbH & Co. KG	41,716	55,472
AO Gazum	27,654	25,119
Wintershall Erdgas Handelshaus Zug AG (WIEE)*	21,050	13,304
AO Overgaz Inc.	19,134	16,360
AO Moldovagaz	17,125	20,785
Promgaz S.p.A.	13,600	11,435
ZAO Gazprom YRGM Trading	12,916	5,912
AO Lietuvos dujos	10,942	8,129
PremiumGas S.p.A.	9,808	4,825
GWH – Gaz und Warenhandels GmbH	9,663	7,059
ZAO Gazprom YRGM Development	9,225	2,280
AO Latvijas Gaze	5,121	6,015
Bosphorus Gaz Corporation A.S.	3,695	3,436
OAO TGC-1**	-	12,981
RosUkrEnergo AG	-	5,349
Gas transportation sales		
OAO NOVATEK	25,975	20,020
ZAO Gazprom YRGM Trading	17,837	13,078
ZAO Gazprom YRGM Development	12,741	5,456
Gas condensate, crude oil and refined products sales		
OAO NGK Slavneft and its subsidiaries	35,228	22,841
OAO Salavatnefteorgsyntez	12,419	10,787
Gas refining services sales		
TOO KazRosGaz	4,518	4,140
Purchased gas	**Expenses**	
ZAO Gazprom YRGM Trading	42,152	38,585
ZAO Gazprom YRGM Development	30,139	14,121
TOO KazRosGaz	28,158	31,810
OAO NOVATEK	12,935	15,791
RosUkrEnergo AG	8,447	-
Sakhalin Energy Investment Company Ltd.	7,533	3,311
Purchased transit of gas		
OAO Beltransgaz	14,206	14,111
SGT EuRoPol GAZ S.A.	10,207	12,314
Blue Stream Pipeline Company B.V.	7,622	8,731
WINGAS GmbH & Co. KG	3,238	4,926
Purchased crude oil and refined products		
OAO NGK Slavneft and its subsidiaries	53,146	54,849
OAO Tomskneft VNK and its subsidiaries	34,864	31,628
Salym Petroleum Development N.V.	26,452	17,575
Processing services purchases		
OAO NGK Slavneft and its subsidiaries	7,835	6,916

* Wintershall Erdgas Handelshaus Zug AG (WIEE) is the subsidiary of Wintershall Erdgas Handelshaus GmbH &Co.KG (WIEH).
** OAO TGC-1 is consolidated from the date of acquisition of controlling interest in December 2009 (see Note 37).

(In millions of Russian Roubles)

41 RELATED PARTIES (continued)

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

	As of 31 December 2010		As of 31 December 2009	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Short-term accounts receivable and prepayments				
RosUkrEnergo AG	81,622	-	10,573	-
OAO Beltransgaz	14,972	-	8,875	-
OAO Salavatnefteorgsyntez	10,829	-	10,488	-
ZAO Panrusgaz	8,087	-	8,877	-
WINGAS GmbH & Co.KG	7,870	-	4,791	-
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	7,253	-	12,018	-
AO Overgaz Inc.	5,820	-	3,795	-
AO Gazum	5,164	-	4,082	-
Wintershall Erdgas Handelshaus Zug AG (WIEE)	2,763	-	2,249	-
AO Moldovagaz*	2,717	-	3,731	-
Promgaz S.p.A.	2,143	-	1,721	-
AO Lietuvos dujos	2,103	-	1,622	-
OAO Gazprombank	1,567	-	1,026	-
ZAO Gazprom YRGM trading	1,432	-	1,354	-
OAO NGK Slavneft and its subsidiaries	1,238	-	1,647	-
ZAO Gazprom YRGM Development	1,023	-	5,121	-
TOO KazRosGaz	647	-	462	-
OAO Sibur Holding and its subsidiaries	498	-	4,083	-
OAO NOVATEK	-	-	530	-
Cash balances in associated undertakings				
OAO Gazprombank	191,552	-	93,148	-
Long-term accounts receivable and prepayments				
WINGAS GmbH & Co. KG	15,439	-	16,609	-
Salym Petroleum Development N.V.	4,806	-	8,896	-
OAO Sibur Holding and subsidiaries	3,894	-	1,406	-
RosUkrEnergo AG	-	-	11,842	-
Long-term promissory notes				
OAO Gazprombank	943	-	2,193	-
Short-term accounts payable				
RosUkrEnergo AG	-	8,447	-	-
SGT EuRoPol GAZ S.A.	-	6,976	-	6,590
ZAO Gazprom YRGM Trading	-	6,466	-	5,546
ZAO Gazprom YRGM Development	-	4,984	-	9,547
TOO KazRosGaz	-	4,336	-	1,896
OAO Sibur Holding and ist subsidiaries	-	3,777		3,839
WINGAS GmbH & Co.KG	-	2,806	-	2,675
Salym Petroleum Development N.V.	-	2,635	-	1,297
Promgaz S.p.A.	-	1,583	-	-

(In millions of Russian Roubles)

41 RELATED PARTIES (continued)

	As of 31 December 2010		As of 31 December 2009	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts payable				
OAO NGK Slavneft and its subsidiaries	-	1,394	-	788
OAO Beltransgaz	-	1,297	-	2,028
OAO Gazprombank	-	708	-	203
OAO NOVATEK	-	-	-	784
Other non-current liabilities				
OAO Sibur Holding and its subsidiaries	-	1,115	-	100
ZAO Gazprom YRGM trading	-	3,683	-	-
Short-term loans from associated companies				
OAO Tomskneft VNK and its subsidiaries	-	7,027	-	10,463
OAO Gazprombank	-	6,973	-	4,563
Wintershall Erdgas Handelshaus GmbH & Co.KG (WIEH)	-	2,527	-	-
Long-term loans from associated undertaking				
OAO Gazprombank	-	3,770	-	9,536

* Net of impairment provision on accounts receivable in the amount of RR 69,305 and RR 51,802 as of 31 December 2010 and 2009 respectively.

Investments in associated undertakings and jointly controlled entities are disclosed in Note 13.
See Note 42 for financial guarantees issued by the Group on behalf of associated undertakings and jointly controlled entities.

42 COMMITMENTS AND CONTINGENCIES

Financial guarantees

	31 December 2010	31 December 2009
Outstanding guarantees issued on behalf of:		
Sakhalin Energy Investment Company Ltd.	100,260	101,318
Nord Stream AG	50,005	2,655
OOO Severny Europeysky Trubny Proekt	27,227	-
Blue Stream Pipeline Company B.V.	12,974	18,317
OOO Torgovy Dom Truboprovod	8,305	-
EM Interfinance Limited	5,694	5,785
Blackrok Capital Investments Limited	4,824	4,900
OOO Production Company VIS	4,472	-
ZAO Achimgaz	4,330	4,841
Devere Capital International Limited	4,217	5,672
OAO Group E4	1,450	3,729
Gaztransit	725	972
MRK Energy DMCC	-	8,620
OOO Stroygazconsulting	-	8,841
Other	16,894	22,636
	241,377	**188,286**

In 2010 and in prior periods counterparties fulfilled their obligations. The maximum exposure to credit risk in relation to financial guarantees is RR 241,377 and RR 188,286 as of 31 December 2010 and 2009, respectively.

Included in financial guarantees are amounts denominated in USD of USD 4,374 million and USD 4,919 million as of 31 December 2010 and 2009, respectively, as well as amounts denominated in Euro of Euro 1,494 million and Euro 299 million as of 31 December 2010 and 2009, respectively.

42 COMMITMENTS AND CONTINGENCIES (continued)

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 2010 and 2009, outstanding amounts of these loans were RR 12,974 (USD 426 million) and RR 18,317 (USD 606 million), respectively, which were guaranteed by the Group, pursuant to its obligations.

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) bonds issued by five financing entities: Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited (registered in Ireland) in regard to bonds issued with due dates December 2012, June 2018, December 2009, December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by SGT EuRoPol GAZ S.A. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. As a result as of 31 December 2010 and 2009 the guarantees issued on behalf of Devere Capital International Limited, Blackrock Capital Investments Limited and EM Interfinance Limited amounted to RR 14,735 (USD 483 million) and RR 16,357 (USD 541 million), respectively.

In 2007 the Group provided a guarantee to Wintershall Vermogens-Verwaltungsgesellschaft mbH on behalf of ZAO Achimgaz as a security of loans received and used for additional financing of the pilot implementation of the project on the development of Achimsky deposits of the Urengoy field. The Group's liability with respect to loans is limited by 50% in accordance with the ownership interest in ZAO Achimgaz. As of 31 December 2010 and 2009 the above guarantee amounted to RR 4,330 (Euro 107 million) and RR 4,841 (Euro 112 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 2009 the above guarantee amounted to RR 2,655 (Euro 61 million). As of 31 December 2010 this loan was repaid.

In April 2008 the Group provided a guarantee to Credit Suisse International and AKB National Reserve bank (OAO) on behalf of MRK Energy DMCC related to loan received by MRK Energy DMCC. The purpose of the loan is the financing of the construction of gas pipeline Kudarsky pereval – Tskhinval (South Ossetia). As of 31 December 2009 the above guarantee amounted to RR 8,620. As of 31 December 2010 this loan was repaid.

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 2010 and 2009 the above guarantee amounted to RR 1,450 (Euro 36 million) and RR 3,729 (Euro 86 million), respectively.

In June 2008 the Group provided a guarantee to the Bank of Tokyo-Mitsubishi UFJ Ltd. on behalf of Sakhalin Energy Investment Company Ltd. under the credit facility up to the amount of the Group's share (50%) in the obligations of Sakhalin Energy Investment Company Ltd. toward the Bank of Tokyo-Mitsubishi UFJ Ltd. As of 31 December 2010 and 2009 the above guarantee amounted to RR 100,260 (USD 3,290 million) and RR 101,318 (USD 3,350 million), respectively.

In April 2009 the Group provided a guarantee to OAO Gazprombank on behalf of OOO Stroygazconsulting as a security of credit facility for construction supply of Bovanenkovskoye, Yamburgskoe fields and Bovanenkovo-Ukhta gas trunk-line system. As of 31 December 2009 the above guarantee amounted to RR 8,841. As of 31 December 2010 this loan was repaid.

In January 2010 the Group provided a guarantee to OAO Bank VTB on behalf of OOO Production Company VIS as a security of credit facility for financing of projects of construction industrial units for Gazprom Group, including priority investment projects of construction generating capacities of OAO WGC-6. As of 31 December 2010 the above guarantee amounted to RR 4,472.

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

42 COMMITMENTS AND CONTINGENCIES (continued)

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

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

Other guarantees of the Group included guarantees, issued by the Group's banking subsidiaries to third parties, in the amount of RR nil and RR 5,700 as of 31 December 2010 and 2009, respectively.

Capital commitments

In November 2010 the Board of Directors approved a RR 816 billion investment programme for 2011. 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 2010 no loss is expected to result from these long-term commitments.

43 OPERATING RISKS

Operating environment

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

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

Legal proceedings

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

Taxation

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

Management believes that its interpretation of the relevant legislation as of 31 December 2010 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.

43 OPERATING RISKS (continued)

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 recent global financial crisis has had a severe effect on the Russian economy. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector. Management is unable to predict all developments which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

44 FINANCIAL RISK FACTORS

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

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

Market risk

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

(a) Foreign exchange risk

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

(In millions of Russian Roubles)

44 FINANCIAL RISK FACTORS (continued)

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

Notes		Russian Rouble	US dollar	Euro	Other	Total
	As of 31 December 2010					
	Financial assets					
	Current					
8	Cash and cash equivalents	225,802	150,337	50,477	14,170	440,786
9	Short-term financial assets (excluding equity securities)	5,127	-	-	37	5,164
10	Trade and other accounts receivable	303,687	165,401	45,505	25,010	539,603
	Non-current					
14	Long-term accounts receivable	127,734	38,859	-	569	167,162
15	Available for sale long-term financial assets (excluding equity securities)	1,211	1,311	-	24	2,546
	Total financial assets	**663,561**	**355,908**	**95,982**	**39,810**	**1,155,261**
	Financial liabilities					
	Current					
17	Accounts payable and accrued charges	483,817	25,289	15,322	24,355	548,783
19	Short-term borrowings and current portion of long-term borrowings	44,584	105,095	22,560	18,606	190,845
19	Short-term promissory notes payable	207	-	-	-	207
	Non-current					
20	Long-term borrowings	100,598	726,423	289,006	8,368	1,124,395
	Total financial liabilities	**629,206**	**856,807**	**326,888**	**51,329**	**1,864,230**
	As of 31 December 2009					
	Financial assets					
	Current					
8	Cash and cash equivalents	125,718	88,609	25,135	10,297	249,759
9	Short-term financial assets (excluding equity securities)	44,988	5,156	-	-	50,144
10	Trade and other accounts receivable	298,691	195,279	70,719	18,271	582,960
	Non-current					
14	Long-term accounts receivable	164,332	24,316	1,417	-	190,065
15	Available for sale long-term financial assets (excluding equity securities)	27,977	1,370	-	-	29,347
	Total financial assets	**661,706**	**314,730**	**97,271**	**28,568**	**1,102,275**

(In millions of Russian Roubles)

44 FINANCIAL RISK FACTORS (continued)

	Financial liabilities					
	Current					
17	Accounts payable and accrued charges	325,955	94,056	24,499	25,746	470,256
19	Short-term borrowings and current portion of long-term borrowings	134,956	182,575	100,346	6,978	424,855
19	Short-term promissory notes payable	11,761	-	-	-	11,761
	Non-current					
20	Long-term borrowings	139,109	716,545	301,987	26,816	1,184,457
20	Long-term promissory notes payable	4,592	-	-	-	4,592
	Total financial liabilities	**616,373**	**993,176**	**426,832**	**59,540**	**2,095,921**

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 2010, if the Russian Rouble had weakened by 10% against the US dollar with all other variables held constant, profit before profit tax would have been lower by RR 50,090, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. As of 31 December 2009, if the Russian Rouble had weakened by 20% against the US dollar with all other variables held constant, profit before profit tax would have been lower by RR 135,689. The effect of a corresponding strengthening of the Russian Rouble against the US dollar is approximately equal and opposite.

As of 31 December 2010, if the Russian Rouble had weakened by 10% against Euro with all other variables held constant, profit before profit tax would have been lower by RR 23,091 mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. As of 31 December 2009, if the Russian Rouble had weakened by 20% against Euro with all other variables held constant, profit before profit tax would have been lower by RR 65,912. The effect of a corresponding strengthening of the Russian Rouble against Euro is approximately equal and opposite.

(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**	
	2010	**2009**
At fixed rate	1,065,435	1,149,288
At variable rate	186,531	268,848
Total	**1,251,966**	**1,418,136**

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 2010 and 2009, the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

As of 31 December 2010, if interest rates on US dollar and Euro denominated borrowings at these dates had been 2.0% higher with all other variables held constant, profit before profit tax would have been lower by RR 3,730 for 2010 mainly as a result of higher interest expense on floating rate borrowings. As of 31 December 2009, if interest rates on US dollar and Euro denominated borrowings at these dates had been 2.0% higher with all other

44 FINANCIAL RISK FACTORS (continued)

variables held constant, profit before profit tax would have been lower by RR 5,377 for 2009. 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 the Group's operations. A decline in the prices could result in a decrease in net income and cash flows. An extended period of low prices could precipitate a decrease in development activities and could cause a decrease in the volume of reserves available for transportation and processing through the Group's systems or facilities and ultimately impact the Group's ability to deliver under its contractual obligations.

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

The Group's exposure to the commodity price risk is related essentially to the export market. As of 31 December 2010, if the average gas prices related to the export market had weakened by 10% with all other variables held constant, profit before profit tax would have been lower by RR 154,936 for 2010. As of 31 December 2009, if the average gas prices related to the export market had weakened by 10% with all other variables held constant, profit before profit tax would have been lower by RR 141,292 for 2009.

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

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

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

(d) Securities price risk

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

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

As of 31 December 2009, if MICEX equity index, which affects the major part of Group's equity securities, had decreased by 15% with all other variables held constant, assuming the Group's equity instruments moved according to the historically high correlation with the index, group's profit before profit tax for the year would have been RR 23,618 lower.

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

Credit risk

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

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

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

(In millions of Russian Roubles)

44 FINANCIAL RISK FACTORS (continued)

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

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

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

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

	31 December 2010	31 December 2009
Cash and cash equivalents	440,786	249,759
Debt securities	5,164	50,144
Long-term and short-term trade and other accounts receivable	708,727	776,279
Financial guarantees	241,377	188,286
Total maximum exposure to credit risk	**1,396,054**	**1,264,468**

Liquidity risk

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

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

The Group believes that it has significant funding through the commercial paper markets or through undrawn committed borrowing facilities to meet foreseeable borrowing requirements (see Note 43).

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 2010					
Short-term and long-term loans and borrowings	94,746	96,099	166,853	551,310	406,232
Trade and other payables	530,572	18,211	-	-	-
Financial guarantees	7,193	43,342	17,145	74,811	98,886
As of 31 December 2009					
Short-term and long-term loans and borrowings	163,876	260,979	162,848	527,212	494,397
Trade and other payables	456,801	13,455	-	-	-
Financial guarantees	18,968	17,794	15,437	46,594	89,493

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.

(In millions of Russian Roubles)

44 FINANCIAL RISK FACTORS (continued)

Capital risk management

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

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

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

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

The net debt to adjusted EBITDA ratios at 31 December 2010 and 2009 were as follows:

	31 December	
	2010	**2009**
Total debt	1,315,448	1,625,705
Less: cash and cash equivalents and certain restricted cash	(444,455)	(253,398)
Net debt	870,993	1,372,307
Adjusted EBITDA	1,357,700	1,089,951
Net debt/Adjusted EBITDA ratio	**0.64**	**1.26**

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

45 POST BALANCE SHEET EVENTS

Investments

In February 2011 the Board of Directors of Sibir Energy Ltd. adopted a resolution to reduce the share capital by cancelling 86.25 mln. shares (22.39%) owned by OAO Central Fuel Company, which withdraw membership in Sibir Energy Ltd. for a compensation of RR 21,671 (USD 740 million). As a result the Group became the owner of 100% interest in Sibir Energy Ltd.

Borrowings and loans

In November 2010 and January 2011 the Group signed the agreements to obtain the long-term loans from RosUkrEnergo AG in the amount of USD 550 million and USD 250 million due in 2012 at an interest rate of 3.5%. In March 2011 the Group obtained under these agreements USD 550 million and USD 17 million, respectively.

In February 2011 the Group issued two series of bonds in the amount of RR 10,000 each due in 2016 and 2021 at an interest rate of 8.5% and bonds in the amount of RR 10,000 due in 2021 at an interest rate of 8.9%. The bonds due in 2021 have an option for early redemption through 5 and 7 years from the placement date.

Other

In February 2011, in view of the growing social, economic and political instability in Libya, the Group's operations in this country, were temporarily discontinued. These operations are mainly represented by operations of the Group's associated undertaking Wintershall AG (see note 13). Management of the Group is not able to reliably estimate the effect of this non-adjusting event on the assets, liabilities and results of operations of Wintershall AG.

In March 2011, as a result of the auction for the sale of property of OAO RUSIA Petroleum, the Group acquired property of that entity for RR 25,796.

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