

**OAO VOSTOKGAZPROM**  
**IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2009**

**ОАО ВОСТОКГАЗПРОМ**

**IFRS Consolidated Financial Statements for the year ended 31 December 2009**

**(in millions of Russian Roubles)**

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## **Independent Auditors' Report**

To the Board of directors of  
OAO Vostokgazprom

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of OAO Vostokgazprom (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

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

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

#### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

*ZAO KPMG*

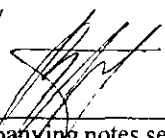
ZAO KPMG  
12 April 2010

**ОАО ВСТОКГАЗПРОМ**
**IFRS Consolidated Statement of Financial Position as of 31 December 2009**

(in millions of Russian Roubles)

|   | Notes | 31 December 2009 | 31 December 2008 |
|---|-------|------------------|------------------|
| <b>Assets</b>   |       |                  |                  |
| <b>Non-current assets</b>   |       |                  |                  |
| Property, plant and equipment                                     | 10    | 15,288           | 11,890           |
| Intangible assets   | 11    | 2,285            | -                |
| Exploration and evaluation assets                                 | 12    | 611              | 516              |
| Deferred income tax assets  | 26    | 25               | 31               |
| Investments in jointly controlled entity                          | 14    | -                | 3,949            |
| Other non-current assets  | 15    | 41               | 182              |
| <b>Total non-current assets</b>                                   |       | <b>18,250</b>    | <b>16,568</b>    |
| <b>Current assets</b>   |       |                  |                  |
| Cash and cash equivalents   | 16    | 426              | 717              |
| Bank deposits   | 16    | 62               | -                |
| Prepayments and advances  |       | 80               | 216              |
| Income tax receivable   |       | 90               | 214              |
| Accounts receivable   | 17    | 1,298            | 979              |
| Inventories   | 18    | 847              | 358              |
| Non-current assets held for sale                                  | 13    | 405              | 136              |
| <b>Total current assets</b>                                       |       | <b>3,208</b>     | <b>2,620</b>     |
| <b>Total assets</b>   |       | <b>21,458</b>    | <b>19,188</b>    |
| <b>Equity and liabilities</b>                                     |       |                  |                  |
| <b>Equity</b>   |       |                  |                  |
| Share capital   | 25    | 2,276            | 2,276            |
| Additional paid in capital  | 25    | 9,187            | 9,187            |
| Retained earnings   |       | 2,826            | 515              |
| <b>Total equity attributable to equity holders of the Company</b> |       | <b>14,289</b>    | <b>11,978</b>    |
| Non-controlling interest (disposal group)                         | 13    | 35               | -                |
| <b>Total equity</b>   |       | <b>14,324</b>    | <b>11,978</b>    |
| <b>Liabilities</b>  |       |                  |                  |
| <b>Non-current liabilities</b>                                    |       |                  |                  |
| Long-term promissory notes  | 19    | 2,195            | 2,752            |
| Long-term borrowings  | 20    | 771              | 588              |
| Deferred income tax liabilities                                   | 26    | 321              | 721              |
| Provisions for liabilities and charges                            | 21    | 1,088            | 686              |
| Other long-term liabilities                                       | 24    | 4                | 9                |
| <b>Total non-current liabilities</b>                              |       | <b>4,379</b>     | <b>4,756</b>     |
| <b>Current liabilities</b>  |       |                  |                  |
| Short-term borrowings and current portion of long-term borrowings | 22    | 1,010            | 1,975            |
| Current portion of long-term promissory notes                     | 19    | 846              | -                |
| Accounts payable and accrued charges                              | 23    | 327              | 318              |
| Liabilities classified as held for sale                           | 13    | 83               | -                |
| Income tax payable  |       | 29               | -                |
| Provisions  | 35    | 60               | -                |
| Other taxes payable   | 24    | 400              | 161              |
| <b>Total current liabilities</b>                                  |       | <b>2,755</b>     | <b>2,454</b>     |
| <b>Total liabilities</b>  |       | <b>7,134</b>     | <b>7,210</b>     |
| <b>Total equity and liabilities</b>                               |       | <b>21,458</b>    | <b>19,188</b>    |

 Vitaly A. Kutepov  
 President  
 9 April 2009



 Natalia S. Zayka  
 Chief Accountant  
 9 April 2009



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

**ОАО ВОСТОКГАЗПРОМ****IFRS Consolidated Statement of Comprehensive Income for the year ended 31 December 2009**

(in millions of Russian Roubles)

|   | Notes | Year ended<br>31 December 2009 | Year ended<br>31 December 2008 |
|---|-------|--------------------------------|--------------------------------|
| Sales   | 27    | 10,992                         | 7,632                          |
| Production costs  | 28    | (3,423)                        | (2,308)                        |
| Exploration expenses  |       | (381)                          | (175)                          |
| Taxes other than on income  | 29    | (1,714)                        | (1,039)                        |
| Selling and transportation costs                                      | 30    | (1,829)                        | (1,101)                        |
| General and administrative expenses                                   | 31    | (786)                          | (743)                          |
| Reversal of provision for impairment of accounts receivable           |       | 1                              | 84                             |
| Loss on disposal and impairment of property, plant and equipment, net | 10    | (11)                           | (64)                           |
| Other operating expenses  |       | (102)                          | (59)                           |
| <b>Operating profit</b>   |       | <b>2,747</b>                   | <b>2,227</b>                   |
| Financial income  | 32    | 60                             | 90                             |
| Financial expense   | 32    | (633)                          | (826)                          |
| Share of net income of jointly controlled entity                      | 14    | -                              | 1,564                          |
| <b>Profit before income tax</b>                                       |       | <b>2,174</b>                   | <b>3,055</b>                   |
| Current income tax  |       | (508)                          | (462)                          |
| Deferred income tax   |       | 645                            | (128)                          |
| Income tax expense  | 26    | 137                            | (590)                          |
| <b>Profit for the year</b>  |       | <b>2,311</b>                   | <b>2,465</b>                   |
| <b>Total comprehensive income</b>                                     |       | <b>2,311</b>                   | <b>2,465</b>                   |

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

**OA O VOSTOKGAZPROM**
**IFRS Consolidated Statement of Cash Flows for the year ended 31 December 2009**

(in millions of Russian Roubles)

|  | Year ended<br>31 December 2009 | Year ended<br>31 December 2008 |
|--|--------------------------------|--------------------------------|
| Profit before income tax   | 2,174                          | 3,055                          |
| <b>Adjustments for:</b>  |                                |                                |
| Depreciation of property, plant and equipment  | 1,216                          | 989                            |
| Amortization of intangible assets  | 16                             | -                              |
| Net financial expense  | 573                            | 736                            |
| Reversal of provision for impairment of accounts receivable                                | (1)                            | (84)                           |
| Provision for tax claims   | 60                             | -                              |
| Loss on disposals and impairment of property, plant and equipment                          | 11                             | 64                             |
| Loss on disposal and impairment of intangible assets and exploration and evaluation assets | 186                            | -                              |
| Share of net income of jointly controlled entity   | -                              | (1,564)                        |
| Other  | 38                             | 10                             |
| <b>Net operating cash flow before changes in working capital</b>                           | <b>4,273</b>                   | <b>3,206</b>                   |
| (Increase) / decrease in inventories   | (292)                          | 235                            |
| Decrease in accounts receivable and prepayments  | 371                            | 47                             |
| Increase / (decrease) in taxes payable other than income tax                               | 220                            | (406)                          |
| (Decrease) / increase in accounts payable and accrued charges                              | (200)                          | 108                            |
| <b>Cash flows from operations before income taxes and interest paid</b>                    | <b>4,372</b>                   | <b>3,190</b>                   |
| Income tax paid  | (912)                          | (1,228)                        |
| <b>Net cash from operating activities</b>  | <b>3,460</b>                   | <b>1,962</b>                   |
| <b>Cash flows from investing activities</b>  |                                |                                |
| Capital expenditures   | (2,646)                        | (1,745)                        |
| Purchase of exploration and evaluation assets  | (237)                          | (442)                          |
| Cash of acquired subsidiary  | 379                            | -                              |
| Proceeds from disposal of property, plant and equipment                                    | 20                             | 38                             |
| Placement in bank deposits   | (62)                           | -                              |
| Withdrawal of bank deposits  | -                              | 720                            |
| <b>Net cash used in by investing activities</b>  | <b>(2,546)</b>                 | <b>(1,429)</b>                 |
| <b>Cash flows from financing activities</b>  |                                |                                |
| Proceeds from borrowings   | 4,421                          | 3,794                          |
| Repayments of borrowings   | (5,303)                        | (4,108)                        |
| Interest paid  | (323)                          | (218)                          |
| <b>Net cash used in financing activities</b>   | <b>(1,205)</b>                 | <b>(532)</b>                   |
| <b>Net (decrease) / increase in cash and cash equivalents</b>                              | <b>(291)</b>                   | <b>1</b>                       |
| Cash and cash equivalents at beginning of year   | 717                            | 716                            |
| <b>Cash and cash equivalents at end of year</b>  | <b>426</b>                     | <b>717</b>                     |

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

**ОАО ВСТОКГАЗПРОМ**
**IFRS Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2009**  
(in millions of Russian Roubles)

| <b>Attributable to equity holders of the Company</b> |                      |                                   |  |               |                                 |                     |
|--|----------------------|-----------------------------------|--|---------------|---------------------------------|---------------------|
|  | <b>Share capital</b> | <b>Additional paid in capital</b> | <b>Retained earnings/ (accumulated loss)</b> | <b>Total</b>  | <b>Non-controlling interest</b> | <b>Total equity</b> |
| <b>Balance as of 1 January 2008</b>                  | <b>2,276</b>         | <b>9,187</b>                      | <b>(1,950)</b>                               | <b>9,513</b>  | <b>-</b>                        | <b>9,513</b>        |
| Profit for the year                                  | -                    | -                                 | 2,465  | 2,465         | -                               | 2,465               |
| <b>Total comprehensive income for the year</b>       | <b>-</b>             | <b>-</b>                          | <b>2,465</b>                                 | <b>2,465</b>  | <b>-</b>                        | <b>2,465</b>        |
| <b>Balance as of 31 December 2008</b>                | <b>2,276</b>         | <b>9,187</b>                      | <b>515</b>                                   | <b>11,978</b> | <b>-</b>                        | <b>11,978</b>       |
| <b>Balance as of 1 January 2009</b>                  | <b>2,276</b>         | <b>9,187</b>                      | <b>515</b>                                   | <b>11,978</b> | <b>-</b>                        | <b>11,978</b>       |
| Profit for the year                                  | -                    | -                                 | 2,311  | 2,311         | -                               | 2,311               |
| <b>Total comprehensive income for the year</b>       |                      |                                   | <b>2,311</b>                                 | <b>2,311</b>  |                                 | <b>2,311</b>        |
| Non-controlling interest (disposal group)            | -                    | -                                 | -  | -             | 35                              | 35                  |
| <b>Balance as of 31 December 2009</b>                | <b>2,276</b>         | <b>9,187</b>                      | <b>2,826</b>                                 | <b>14,289</b> | <b>35</b>                       | <b>14,324</b>       |

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

**1. GENERAL INFORMATION**

OAO Vostokgazprom ("the Company") is an Open Joint Stock that was registered in the Tomsk region, which is located within the Russian Federation, on 21 July 1999 in accordance with the Resolution of Board of Directors of OAO Gazprom.

The Company's registered office is Bolshaya Podgomaya str., 73, Tomsk, Russia.

The Company and its subsidiaries ("the Group") are primarily engaged in the exploration, production and refining of hydrocarbons, sale of gas, gas condensate and methanol. The main production facilities of the Group are located in the Tomsk region of the Russian Federation. The Group's products are sold both within the Russian Federation and abroad.

The Company is controlled by OAO Gazprom ("the Parent company") which holds 99.98% voting interest in OAO Vostokgazprom as of 31 December 2009 and 2008.

**2. RUSSIAN BUSINESS ENVIRONMENT**

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

**3. BASIS OF PREPARATION*****Statement of compliance***

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Group's companies maintain their statutory financial statements in accordance with the Regulation on Accounting and Reporting of the Russian Federation ("RAR"). The Group's financial statements are based on the statutory records maintained under historical cost convention, with adjustments and reclassifications recorded in the financial statements for the purpose of fair presentation in accordance with IFRS.

***Functional and presentation currency***

The Russian Rouble ("Russian Rouble" or "RR") is the functional of the Parent Company of the Group. The Russian Rouble is the presentation currency for the Group's operations as the majority of the Group's business is conducted in Russian Roubles. All financial information is presented in Russian Roubles and rounded to the nearest million.

***Basis of measurement***

The consolidated financial statements are prepared on the historical cost basis. The carrying amounts of non-monetary assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, GosKomStat. Russia ceased to be hyperinflationary for IFRS purposes as of 1 January 2003.

***Changes in accounting policies and presentation***

With effect from 1 January 2009, the Group changed its accounting policies in presentation of financial statements.

The Group applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as at 1 January 2009. The revised standard requires a presentation of all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard.



#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Group early adopted the following interpretation as of 1 January 2009:

- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Consolidated and Separate Financial Statements*. The revisions address, among other things, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove the exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require the effects of transactions with non-controlling interests to be recognised directly in equity.

The significant accounting policies applied in the preparation of the IFRS consolidated financial statements are set out below. These accounting policies have been consistently applied.

##### 4.1 Basis of consolidation

###### *Subsidiaries*

The consolidated financial statements include financial statements of subsidiaries where the Group, directly or indirectly, has more than 50% of the voting rights or is otherwise able to exercise control over their operational and financial policies in order to obtain economic benefit. In assessing control, potential voting rights that are currently exercisable are taken into account.

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 when control ceases. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another. The accounting policies of subsidiaries have been changed when necessary to align with the policies of the Group.

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date and less the fair value of previously held interest. Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination. When the acquisition is achieved in stages (step acquisition), the identifiable assets and liabilities are recognised at full fair value when control is obtained, and gain or loss is recognised in profit or loss for the difference between the fair value and the carrying amount of the previously held equity interest in the acquiree.

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

###### *Associates*

Associates are those entities in which the Group has significant influence, but not control over the financial and operating policies. Generally significant influence occurs when the Group has between 20% and 50% of the voting rights. Associates are accounted for using the equity. The carrying value of associates includes the goodwill assessed at the moment of acquisition less accumulated impairment losses (if any).

The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated statement of comprehensive income from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

***Joint ventures***

Joint ventures are those entities in which the Group has joint control with the other investor, established by contractual agreement which requires unanimous consent for strategic financial and operating decisions. Joint ventures are accounted for using the equity method as described above for associates.

***Transactions with entities under common control***

Investments in subsidiaries, associates and jointly controlled entities acquired from or created together with parties under common control are accounted for using the carrying values in the financial statements of the transferring party. The results of subsidiaries, associates and jointly controlled entities are included in these consolidated financial statements, from the date the group obtains control or ownership interest over them.

The results of transactions with companies under common control that are entered into on non market conditions and where the Parent company or its subsidiaries act in a shareholder capacity are presented in the consolidated financial statements directly in equity.

***Transactions eliminated on consolidation***

All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

Unrealised gains on transactions between the Group and its equity accounted investees are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

**4.2 Foreign currency transactions**

Monetary assets and liabilities held by the Group in foreign currencies as of the reporting date are translated into Russian Roubles at the exchange rate prevailing at that 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 recognized as exchange gains or losses in the profit or loss.

**4.3 Non-derivative financial instruments**

Financial assets and liabilities carried in the consolidated statement of financial position include accounts receivable, cash and cash equivalents, borrowings, promissory notes and accounts payable. Financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are partially or fully de-recognized only when the rights to the separable benefits under the relevant contract are lost, surrendered, or have expired or have been settled. Financial liabilities are de-recognized only when the obligation specified in the relevant contract is discharged, cancelled or has expired.

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term investments which are readily convertible to cash and have an original maturity of three months or less.

Financial assets are presented at amortized cost, less impairment provisions. Financial liabilities are presented at amortized cost using effective interest method.

When borrowings are provided at beneficial (below market) interest rates by the parent company, the difference between the cost of borrowings (being the fair value of the future cash outflows using the prevailing market rate of interest at inception) and the proceeds of the borrowings is credited to additional paid in capital. Subsequently, the carrying amount of such borrowings is adjusted for amortization of the difference on origination and the related expense is recorded as interest expense within the consolidated statement of comprehensive income using the effective yield method.

#### 4.4 Inventories

Inventories are measured at the lower of net realizable 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 labor, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

#### 4.5 Hydrocarbon exploration and production activity

Pre-license costs are recognized in the profit or loss as incurred.

##### *Exploration and evaluation (E&E) expenditure*

Cost of E&E is capitalized. Costs of successful E&E expenditure are presented as E&E assets and are classified as exploration and evaluation assets. E&E assets include licenses to use mineral resources with unproved reserves, costs of exploratory drilling and costs associated with assessing the technical feasibility and commercial viability of hydrocarbon production. E&E assets are initially measured at cost.

E&E costs are assessed for impairment (see Note 4.6) if 1) sufficient data exists to determine technical feasibility and commercial viability, or 2) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, E&E assets are allocated to cash-generating units on a field by field basis.

The technical feasibility and commercial viability of hydrocarbon production is considered to be determinable when proven reserves are determined to exist. Upon determination of proven reserves, E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to tangible production property, plant and equipment.

E&E expenditure deemed to be unsuccessful is recognized immediately in the consolidated statement of comprehensive income.

##### *Production property, plant and equipment*

Property, plant and equipment are measured at cost of acquisition or construction after deduction of accumulated depreciation and impairment (if any). Property, plant and equipment items (vehicles, drilling rigs, equipment) used for development as well as for maintenance of E&E assets are presented as tangible assets.

The cost of self-constructed development wells and other assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

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

Interest costs on borrowings are capitalized as part of the cost of self constructed assets during the period of time that is required to construct and prepare the asset for its intended use. All other borrowing costs are expensed.

Depreciation is calculated on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Assets under construction are not depreciated. The estimated useful lives of the Group's assets for the current and comparative periods are as follows:

|                                | 31 December 2009 | 31 December 2008 |
|--------------------------------|------------------|------------------|
| Pipelines                      | 25               | 25               |
| Wells and production equipment | 12-30            | 12-30            |
| Machinery and equipment        | 10-18            | 10-18            |
| Buildings and roads            | 8-50             | 8-50             |

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

**4.6 Intangibles assets*****Goodwill***

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets.

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

***Other intangible assets***

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

***Amortisation***

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- patents 10-20 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

**4.7 Impairment of assets*****Financial assets***

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the consolidated statement of comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the profit or loss.

***Non-financial assets***

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business acquisition, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **4.8 Non-current assets held for sale**

Non-current assets or disposal groups are classified in the statement of financial position as held for sale when their carrying amount will be recovered principally through a sale transaction and not through their use.

Assets (disposal groups) are classified as held for sale when they can be sold in their present condition and on the terms that are typical (standard) for such assets and such sale in itself needs to be highly probable.

Sale can be characterized as highly probable when the management has a firm intention to dispose of the asset, actively searches for potential buyers, has a plan of the asset disposal and works on its execution. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.

Held for sale assets are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, which continue to be measured in accordance with the Group's accounting policy. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss. Held for sale assets (or disposal groups) are not depreciated or amortized.

#### **4.9 Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

**4.10 Provisions for liabilities and charges**

Provisions, including provisions for tax claims, environmental liabilities and asset retirement obligations, 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. As obligations are determined, they are recognized immediately based on the present value of the expected future cash flows arising from the obligations and presented within either other non-current or current liabilities.

**4.11 Pension benefits**

The Group's mandatory contributions to the Government pension fund are expensed when incurred.

**4.12 Revenue recognition**

Revenue from the sale of natural gas, gas condensate and methanol is recognized when the significant risks and rewards of ownership have passed to the buyer which is when products are delivered to customers and title passes. Revenues are stated net of VAT and other similar compulsory payments. Natural gas prices in the Russian Federation are established by the Federal Tariffs Service (FTS).

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 sold/provided.

**4.13 Financial income and expenses**

Finance income comprises interest income on funds invested, and foreign currency gains. Interest income is recognised as it accrues in profit and loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions and foreign currency losses. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

**4.14 Non-cash transactions**

A portion of sales and purchases are settled by mutual settlements, barter and non-cash settlements. These settlements are generally in the form of direct settlement by goods or services with the final customer, cancellation of mutual balances or through a chain of non-cash transactions involving several companies.

Non-cash transactions are measured at the fair value of consideration received or receivable. When it is not possible to measure the fair value of consideration received or receivable reliably, the non-cash transactions are measured at fair value of consideration given.

Non-cash transactions have been excluded from the operating, investing and financing activities components in the accompanying consolidated statement of cash flows.

**4.15 Shareholders' equity**

Share capital consists of ordinary shares, which are classified as equity. Any contributions received from shareholders in the form other than a purchase of shares, are recognized as an additional paid in capital.

Dividends are recognized as a liability and deducted from shareholders' equity at the date of declaration.

## **5. KEY ACCOUNTING ESTIMATES AND PROFESSIONAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

Management has made a number of judgements, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates and estimates may increase or decrease in the future. Judgements and estimates that have the most significant effect on the amounts recognised in the financial statements include:

### **5.1 Tax legislation**

Tax, currency and customs legislation in the Russian Federation can be subject to varying and sometimes conflicting interpretations and is frequently changed and amended (see Note 35).

### **5.2 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, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes if any of these conditions or estimates may result in adjustments to future depreciation rates.

**5.3 Impairment provision for accounts receivable**  
Management has determined the provision for impairment of receivables based on specific customer identification, payment trends and subsequent receipts in order to estimate the fair value of future cash collections. Management believes that the Group will be able to realize the net receivable amount through direct collections and other non-cash settlements and that therefore the carrying value approximates their fair value.

### **5.4 Goodwill impairment**

For the purpose of impairment test the Group allocated goodwill to three cash generating units: Myldinsky and Severo-Vasygan gas fields and methanol production plant, that are expected to benefit from the synergies of the business combination. The allocation of goodwill was made in proportion to carrying value of net assets of these cash generating units. Management has used various assumptions in the calculation of the recoverable amount of goodwill recognised as a result of a business combination. The key assumptions are disclosed in Note 10.

### **5.5 Provisions for site restoration**

The Group recognizes provisions when there is a present obligation and the assessment indicates that an outflow of resources is probable and a reliable estimate of the obligation can be made. Due to its nature, the most significant uncertainty is inherent in the estimation of cost of site restoration that will be incurred by the Group in the end of useful life of fields. In estimating the amount of provisions, the management of the Group uses results of the assessments of geological engineers, that are based on the current cost of site restoration. Actual results may differ from the estimates, and these estimates may be increased or decreased in future.

### **5.6 Fair values determination**

The fair value determination of property, plant and equipment, intangible assets and inventory recognised as a result of a business combination is disclosed in Note 7.

## **6. NEW ACCOUNTING DEVELOPMENTS**

In 2009 the Group has adopted all IFRS, amendments and interpretations which are effective as of 31 December 2009 and which are relevant to its operations.

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2009, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- Revised IAS 24 *Related Party Disclosures* (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for

government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.

- IFRIC 17 *Distributions of Non-cash Assets to Owners* addresses the accounting for non-cash dividend distributions to owners. The interpretation clarifies when and how a non-cash dividend should be recognised and how the difference between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 became effective for annual periods beginning on or after 1 July 2009. The amendment is not expected to have an impact on Group's consolidated financial statements. IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2010. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

## **7. DETERMINATION OF FAIR VALUES**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### **Property, plant and equipment**

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

### **Intangible assets**

The fair value of patents acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

### **Inventories**

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.



**Trade and other receivables**

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

**Non-derivative financial instruments**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

**8. FINANCIAL RISK MANAGEMENT**

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

**Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments.

Financial instruments, which potentially subject the Group to concentrations of credit risk primarily consist of accounts receivable including promissory notes. The credit risks are systematically monitored and are considered when impairment provisions are created.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments based on a specific loss that relates to individually significant exposures.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (see Note 17). Approximately 50% of Group sales relate to two customers of the Group who are under the common control of OAO Gazprom.

Cash and bank deposits are placed in financial institutions, which are considered to have minimal risk of default.

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that can not reasonably be predicted, such as natural disasters.

### **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group does not apply hedge accounting in order to manage volatility in profit or loss.

### **Foreign exchange risk**

The Group is exposed to currency risk on export sales and borrowings that are denominated in a currency other than the Russian Rouble. The currencies in which these transactions primarily are denominated is USD.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations.

### **Interest rate risk**

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

The majority of interest rates on long-term borrowings are fixed, which are disclosed in Note 20. The Group has no significant interest-bearing assets other than fixed rate bank deposits disclosed in Note 16.

### **Commodity risk**

Revenues generated by the sale of gas, condensate and methanol depend on volumes and commodity prices. 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 thus could considerably affect the financial position of the Group and ultimately impact the Group's ability to deliver under its contractual obligations. Management believes it has limited downside commodity price risk and the Group does not use any derivative instruments to mitigate the exposure to commodity price risk.

### **Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total equity. The Board of Directors also monitors the level of dividends to shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year.

The Company and its subsidiaries are subject to external capital requirements that require that their net assets as determined in accordance with Russian Accounting Principles must exceed their charter capital at all times.

**9. GROUP STRUCTURE**

The Group's significant subsidiaries, associates and joint ventures incorporated under the legislature of the Russian Federation are as follows:

| Name                                      | Type of activity                                | Ownership %*<br>as of<br>31 December<br>2009 | Ownership %*<br>as of<br>31 December<br>2008 |
|---|---|--|--|
| <b>Subsidiaries</b>                       |   |  |  |
| OAO Tomskgazprom                          | Extraction of gas, gas condensate and crude oil | 100  | 100  |
| ZAO Methanol                              | Methanol production                             | 100  | 100  |
| OAO Novosibirskneftegazpererabotka        | Sale of oil products                            | 79   | 76   |
| OOO Tomskneftegazpererabotka              | Oil processing                                  | 100  | 100  |
| SMD Chemicals                             | Refining of petrochemical products              | 100  | 50   |
| OAO Zolotaya gorka - odin                 | Capital construction                            | 66   | 46   |
| OOO Gaztransservice                       | Transportation services                         | 100  | 100  |
| OOO Vostok-Infra                          | Non-residential property management             | 100  | 100  |
| <b>Associates and joint ventures</b>      |   |  |  |
| OAO Zapadno-sibirskoe rechnoe parohodstvo | Transportation services                         | 28   | 28   |

\* The ownership share for all subsidiaries, associates and joint ventures of the Group is equal to the voting share.

In August 2006, OAO Gazprom consolidated its methanol production under SMD Chemicals. The new company was founded by entities under the common control of OAO Gazprom: OAO SIBUR Holding, OOO Tomskneftekhim and ZAO Methanol. The Group's equity share in the charter capital of SMD Chemicals was paid via in kind contribution of property, plant and equipment, accounts receivable from OOO Tomskneftekhim and 29% interest in the charter capital of OOO Tomskneftekhim with the carrying values of RR 13, RR 17 and RR 876, respectively, at the date of contribution.

Pursuant to the agreement between the founders of SMD Chemicals, voting rights were shared equally among three investors, whereas the ownership rights were shared equally between OAO SIBUR Holding and ZAO Methanol. Within the framework of the agreement on foundation of SMD Chemicals, in 2007 OOO Tomskneftekhim withdrew from SMD Chemicals through distribution of 29% interest in OOO Tomskneftekhim. After the withdrawal of OOO Tomskneftekhim, the voting and ownership interests are split equally among the participants.

In January 2009 OAO SIBUR Holding (associate of the Parent company) withdrew from SMD Chemicals through distribution of accounts receivable with the carrying value of RR 6,384. After the withdrawal of OAO SIBUR Holding, the ownership of the Group in SMD Chemicals is equal to 100%. Taking control of SMD Chemicals will enable the Group to optimise the process of allocation of hydrocarbons produced on Myldjinsky gas field and Severo-Vasygan gas field between two segments: refining of gas and sale of gas and is expected to provide the Group with additional economic benefit due to synergies of these two cash segments. The Group also expects to reduce costs of methanol through economics of scale.

The fair value of the identifiable assets and liabilities of SMD Chemicals as at withdrawal of OAO SIBUR Holding equalled RR 1,863. The fair value of investments in equity accounted SMD Chemicals as at business combination which equalled the carrying value of investment amounted to RR 3,949. As a result of business combination the Group recognised goodwill in the amount of RR 2,086 (see Note 11) representing the excess of the fair value of investment over the fair value of the assets of SMD Chemicals at the date of business combination.

From the date of acquisition through to 31 December 2009 SMD Chemicals contributed revenue of RR 2,043 and a loss of RR 261.

**ОАО VOSTOKGAZPROM**

Notes to the IFRS Consolidated Financial Statements for the year ended 31 December 2009  
(in millions of Russian Roubles)

The identifiable assets acquired and the liabilities assumed were as follows:

|  | Pre-acquisition<br>carrying amounts<br>on a comparable<br>IFRS basis | Fair value<br>adjustments | Fair value,<br>recognized as at<br>acquisition date |
|--|--|---------------------------|---|
| <b>Non-current assets</b>                      | <b>319</b>   | <b>1,380</b>              | <b>1,699</b>  |
| Property, plant and equipment                  | 319  | 1,165                     | 1,484   |
| Intangible assets                              | -  | 215                       | 215   |
| <b>Current assets</b>                          | <b>1,067</b>   | <b>-</b>                  | <b>1,067</b>  |
| Cash and cash equivalents                      | 379  | -                         | 379   |
| Accounts receivable                            | 491  | -                         | 491   |
| Inventories                                    | 197  | -                         | 197   |
| <b>Non-current liabilities</b>                 | <b>45</b>  | <b>206</b>                | <b>251</b>  |
| Deferred income tax liabilities                | 45   | 206                       | 251   |
| <b>Current liabilities</b>                     | <b>652</b>   | <b>-</b>                  | <b>652</b>  |
| Income tax payable                             | 558  | -                         | 558   |
| Accounts payable and accrued charges           | 94   | -                         | 94  |
| <b>Net identifiable assets and liabilities</b> | <b>689</b>   | <b>1,174</b>              | <b>1,863</b>  |

In August 2009 the Group has acquired additional 20% share in ОАО Zolotaya gorka – odin. As a result Group's share in ОАО Zolotaya gorka – odin was increased from 46% to 66%. The acquisition of additional share was realized with the view of the following sale of the total 66% share of the Group in ОАО Zolotaya gorka – odin (see Note 13). As a result of acquisition the Group has recognized non-controlling interest for the amount of RR 35.

**10. P ROPERTY, PLANT AND EQUIPMENT**

|   | Pipelines    | Wells          | Buildings<br>and roads | Machinery<br>and<br>equipment | Construction<br>in progress | Total          |
|---|--------------|----------------|------------------------|-------------------------------|-----------------------------|----------------|
| <i>Historical cost:</i>                       |              |                |                        |                               |                             |                |
| <b>As of 1 January 2008</b>                   | <b>1,003</b> | <b>3,758</b>   | <b>3,785</b>           | <b>8,161</b>                  | <b>1,630</b>                | <b>18,337</b>  |
| <i>Changes over the period:</i>               |              |                |                        |                               |                             |                |
| Additions                                     | -            | 63             | 49                     | 275                           | 1,760                       | 2,147          |
| Transfers                                     | -            | -              | 172                    | 149                           | (321)                       | -              |
| Disposals                                     | -            | -              | (60)                   | (354)                         | (51)                        | (465)          |
| <b>As of 31 December 2008</b>                 | <b>1,003</b> | <b>3,821</b>   | <b>3,946</b>           | <b>8,231</b>                  | <b>3,018</b>                | <b>20,019</b>  |
| <b>As of 1 January 2009</b>                   | <b>1,003</b> | <b>3,821</b>   | <b>3,946</b>           | <b>8,231</b>                  | <b>3,018</b>                | <b>20,019</b>  |
| <i>Changes over the period:</i>               |              |                |                        |                               |                             |                |
| Additions                                     | -            | 69             | 75                     | 430                           | 2,656                       | 3,230          |
| Acquisitions through<br>business combinations | -            | -              | 73                     | 1,389                         | 22                          | 1,484          |
| Transfers                                     | -            | 1,201          | 149                    | 1,440                         | (2,790)                     | -              |
| Disposals                                     | -            | -              | (47)                   | (77)                          | (28)                        | (152)          |
| <b>As of 31 December 2009</b>                 | <b>1,003</b> | <b>5,091</b>   | <b>4,196</b>           | <b>11,413</b>                 | <b>2,878</b>                | <b>24,581</b>  |
| <i>Accumulated depreciation:</i>              |              |                |                        |                               |                             |                |
| <b>As of 1 January 2008</b>                   | <b>(328)</b> | <b>(1,969)</b> | <b>(1,192)</b>         | <b>(3,795)</b>                | -                           | <b>(7,284)</b> |
| Depreciation over the period                  | (21)         | (282)          | (144)                  | (542)                         | -                           | (989)          |
| Disposals                                     | -            | -              | 6                      | 138                           | -                           | 144            |
| <b>As of 31 December 2008</b>                 | <b>(349)</b> | <b>(2,251)</b> | <b>(1,330)</b>         | <b>(4,199)</b>                | -                           | <b>(8,129)</b> |
| <b>As of 1 January 2009</b>                   | <b>(349)</b> | <b>(2,251)</b> | <b>(1,330)</b>         | <b>(4,199)</b>                | -                           | <b>(8,129)</b> |
| Depreciation over the period                  | (22)         | (324)          | (153)                  | (717)                         | -                           | (1,216)        |
| Disposals                                     | -            | -              | 21                     | 31                            | -                           | 52             |
| <b>As of 31 December 2009</b>                 | <b>(371)</b> | <b>(2,575)</b> | <b>(1,462)</b>         | <b>(4,885)</b>                | -                           | <b>(9,293)</b> |
| <i>Net book value:</i>                        |              |                |                        |                               |                             |                |
| <b>As of 1 January 2008</b>                   | <b>675</b>   | <b>1,789</b>   | <b>2,593</b>           | <b>4,366</b>                  | <b>1,630</b>                | <b>11,053</b>  |
| <b>As of 31 December 2008</b>                 | <b>654</b>   | <b>1,570</b>   | <b>2,616</b>           | <b>4,032</b>                  | <b>3,018</b>                | <b>11,890</b>  |
| <b>As of 31 December 2009</b>                 | <b>632</b>   | <b>2,516</b>   | <b>2,734</b>           | <b>6,528</b>                  | <b>2,878</b>                | <b>15,288</b>  |

Production property, plant and equipment are shown net of provision for impairment of RR 2,326 as of 31 December 2009 and 2008. Assets under construction are shown net of provision for impairment of RR 145 as of 31 December 2009 and 2008.

As of 31 December 2009, property, plant and equipment with a carrying value of RR 1,473 was pledged as collateral for borrowings (see Notes 20 and 22).

The Group's gas fields are operated under licenses granted by federal and local authorities. The licenses for exploration and production of hydrocarbons expire between 2019 and 2025, however they may be extended. Management expects to extend existing licenses on properties that are expected to produce hydrocarbons subsequent to their current expiration dates. Because of expected renewals, the assets are depreciated over their useful lives even if this is beyond the end of the current license term.

**11. INTANGIBLE ASSETS**

|  | <b>Goodwill</b> | <b>Patents</b> | <b>Total</b> |
|--|-----------------|----------------|--------------|
| <b>Cost</b>                                |                 |                |              |
| Balance at 1 January 2009                  | -               | -              | -            |
| Acquisitions through business combinations | 2,086           | 215            | 2,301        |
| Balance at 31 December 2009                | <b>2,086</b>    | <b>215</b>     | <b>2,301</b> |
| <b>Amortisation and impairment losses</b>  |                 |                |              |
| Balance at 1 January 2009                  | -               | -              | -            |
| Amortisation for the year                  | -               | (16)           | (16)         |
| Impairment losses                          | -               | -              | -            |
| Balance at 31 December 2009                | -               | (16)           | (16)         |
| <b>Carrying amounts</b>                    |                 |                |              |
| At 31 December 2008                        | -               | -              | -            |
| At 31 December 2009                        | <b>2,086</b>    | <b>199</b>     | <b>2,285</b> |

***Impairment testing***

For the purpose of impairment testing, goodwill is allocated to three cash generating units Myldjinsky and Severo-Vasygan gas fields and methanol production plant, that are expected to benefit from the synergies of the combination.

The aggregate carrying amount of goodwill allocated to gas fields and methanol production plant is as follows:

|                           | <b>2009</b>  |
|---------------------------|--------------|
| Myldjinsky gas field      | 1,479        |
| Severo-Vasygan gas field  | 315          |
| Methanol production plant | 292          |
|                           | <b>2,086</b> |

The recoverable amount of gas fields and methanol production plant was based on its value in use.

Value in use was determined by discounting the future cash flows generated from the continuing use of the property, plant and equipment.

The calculation of the value in use in relation to gas fields was based on the following key assumptions:

- Cash flows were projected based on actual operating results, the ten-year business plan for Myldjinsky gas field and fourteen-year business plan for Severo-Vasygan gas field.
- The anticipated real price increase in natural gas price included in the cash flow projections was 21% for the years 2011 to 2012. Cash flows for a further years were extrapolated assuming decrease in real gas price. Nominal gas price is expected to increase due to effect of inflation.
- A discount rate of 10.54% was applied in determining the recoverable amount of the property, plant and equipment. The discount rate was estimated based on an industry average weighted average cost of capital.
- Cash flow projections were prepared in real terms based on presumption that volume of gas production is gradually declining by 6.7% starting from 2013 during the forecasted period.

The values assigned to the key assumptions represent management's assessment of future trends in the gas and methanol production industry and are based on both external and internal sources. Management believes that

the values assigned to the key assumptions and estimates represent the most realistic assessment of future trends.

As a result of impairment test no impairment loss was recognised.

The estimates in respect of impairment testing of gas fields are particularly sensitive in the following areas:

- An increase of one percentage point in the discount rate used would have decreased the projected cash flow values by RR 2 438.
- A 10% decrease in future production volumes would have decreased the projected cash flow values by approximately RR 7 906.

These changes in the estimates in impairment testing do not lead to any impairment loss to be recorded in respect of goodwill at these two cash-generation unit.

The calculation of the value in use in relation to methanol production plant was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results and five-year business plan.
- The anticipated annual growth in revenue for the years 2010 to 2012 was based on expectation of industry recovery and related recovery in volumes of sales by 14.9%. No growth was projected from 2012 to 2014.
- Sales price growth by 3% was based on anticipated increase in demand for methanol and methanol derivatives as alternative fuel.
- A discount rate of 13.03% was applied in determining the recoverable amount of the property, plant and equipment. The discount rate was estimated based on an industry average weighted average cost of capital.
- Cash flow for the period after the prognostic period was determined applying Gordon's model, anticipating terminal growth rate of 3.50%.

The values assigned to the key assumptions represent management's assessment of future trends in the gas and methanol production industry and are based on both external and internal sources. Management believes that the values assigned to the key assumptions and estimates represent the most realistic assessment of future trends.

As a result of impairment test no impairment loss was recognised.

The estimates in respect of impairment testing are particularly sensitive in the following areas:

- An increase of one percentage point in the discount rate used would have lead to impairment loss in amount of RR 199.
- A 10% decrease in future production volumes would have lead to impairment loss in amount of RR 170.

## **12. EXPLORATION AND EVALUATION ASSETS**

E&E assets include licenses to use mineral resources with a total value of RR 403 and RR 242 as at 31 December 2009 and 2008, respectively, and costs of exploration drilling on Rybalny field for the amount of RR 208 and RR 274 as at 31 December 2009 and 2008, respectively. As at 31 December 2009 the Group had licenses to use Karandashovsky, Prokhorkinsky, Rybalny and Somovsky fields with a book value of RR 156, RR 11, RR 44 and RR 192, respectively.

**13. NON-CURRENT ASSETS HELD FOR SALE**

The Group's management committed to sell share in OAO "Zolotaya gorka- odin" (see Note 9). Efforts to sell the disposal group have commenced, and a sale is expected to be finalised during 2010. As of 31 December 2009 the disposal group comprised assets of RR 269 less liabilities of RR 118.

An impairment loss of RR 55 on the remeasurement of the disposal group to the lower of its carrying amount and its fair value less costs to sell has been recognised in other expenses of the consolidated statement of comprehensive income.

|                                     | <b>2009</b> |
|-------------------------------------|-------------|
| <b>Disposal group's assets</b>      |             |
| Property, plant and equipment       | 215         |
| Goodwill                            | 28          |
| Accounts receivable                 | 15          |
| Other                               | 11          |
|                                     | <b>269</b>  |
| <b>Disposal group's liabilities</b> | <b>2009</b> |
| Non-controlling interest            | 35          |
| Borrowings                          | <b>80</b>   |
| Trade and other accounts payable    | 3           |
|                                     | <b>118</b>  |

Besides noted above assets of disposal group as of 31 December 2009 assets held for sale include buildings and equipment with a total value of RR 136. The Group plans to finalise the sale of these assets during 2010.

**14. INVESTMENTS IN JOINTLY CONTROLLED ENTITY**

|   | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
|---|-----------------------------|-----------------------------|
| Balance at the beginning of the reporting period  | 3,949                       | 2,385                       |
| Disposals   | (3,949)                     | -                           |
| Share of profit                                   | -                           | 1,564                       |
| <b>Balance at the end of the reporting period</b> | <b>-</b>                    | <b>3,949</b>                |

Financial information of jointly controlled entity is as follows.

|              | <b>Percent of<br/>share capital<br/>held</b> | <b>Location</b> | <b>As of<br/>31 December 2008</b> | <b>For the year ended<br/>31 December 2008</b> |                |               |
|--------------|--|-----------------|-----------------------------------|--|----------------|---------------|
|              |  |                 | <b>Assets</b>                     | <b>Liabilities</b>                             | <b>Revenue</b> | <b>Profit</b> |
| MD Chemicals | 50%  | Russia          | 7,702                             | 697  | 4,946          | 3,128         |

The carrying values, disclosed in the table above, represent total assets, liabilities, revenues and profit of the Group's associate and not the Group's share. SMD Chemicals is engaged in methanol production. In 2009 the Group acquired additional 50% of interest in SMD Chemicals. As a result, the Group's interest in SMD Chemicals increased from 50% to 100% (see Note 9).



**15. OTHER NON-CURRENT ASSETS**

|  | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
|--|-----------------------------|-----------------------------|
| Long-term VAT recoverable  | 14                          | 11                          |
| Other receivables from related parties   | 6                           | 7                           |
| Other long-term receivables (net of impairment provision of RR 13 as of 31 December 2009 and 2008) | 2                           | 103                         |
| Other non-current assets   | 19                          | 61                          |
|  | <b>41</b>                   | <b>182</b>                  |

**16. CASH AND CASH EQUIVALENTS AND BANK DEPOSITS**

Balances included within cash and cash equivalents in the consolidated statement of financial position mainly represent Group's current accounts.

Current accounts with banks that are related parties are disclosed in Note 34. Within cash and cash equivalents are RR 9 and RR 24 of US dollar denominated cash balances as of 31 December 2009 and 2008, respectively.

Balance of cash and cash equivalents as of 31 December 2009 includes bank deposits in the amount of RR 227. Deposits were placed with Raiffaizenbank, Gazprombank, Rus-Bank with maturity periods less than 3 months and had interest rates of 3.75%, 5% and 3.5%, 13% per annum, respectively.

Balance of cash and cash equivalents as of 31 December 2008 includes bank deposits in the amount of RR 359. Deposits were placed with Rosbank and Bank VTB with maturity periods from 1 to 2 months and had interest rates of 5.2% and 5.3% per annum.

Other bank deposits as of 31 December 2009 comprised of the following:

|              | <b>Currency</b> | <b>Interest rate</b> | <b>Year of<br/>maturity</b> | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
|--------------|-----------------|----------------------|-----------------------------|-----------------------------|-----------------------------|
| Bank deposit | RR              | 8%                   | December<br>2010            | 62                          | -                           |
|              |                 |                      |                             | <b>62</b>                   | <b>-</b>                    |

**17. ACCOUNTS RECEIVABLE**

|  | <b>Note</b> | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
|--|-------------|-----------------------------|-----------------------------|
| Taxes receivable   |             | 298                         | 292                         |
| Trade accounts receivable (net of impairment provision of RR 27 and RR 16 at 31 December 2009 and 2008, respectively)                    |             | 295                         | 312                         |
| Trade receivables of related parties (net of impairment provision of RR 67 and RR 75 at 31 December 2009 and 2008, respectively)         | 34          | 652                         | 259                         |
| Short-term promissory notes and loans (net of impairment provision of RR 1 and RR 38 at 31 December 2009 and 2008, respectively)         |             | -                           | 1                           |
| Other accounts receivable of related parties (net of impairment provision of RR 72 and RR 80 at 31 December 2009 and 2008, respectively) | 34          | 13                          | 7                           |
| Other accounts receivable  |             | 40                          | 108                         |
|  |             | <b>1,298</b>                | <b>979</b>                  |

The Group's exposure to credit and currency risks and impairment losses related to trade and other accounts receivable are disclosed in Note 33.

**18. INVENTORIES**

|                            | 31 December<br>2009 | 31 December<br>2008 |
|----------------------------|---------------------|---------------------|
| Raw materials and supplies | 352                 | 177                 |
| Construction supplies      | 380                 | 149                 |
| Gas condensate mix         | 115                 | 32                  |
|                            | <b>847</b>          | <b>358</b>          |

**19. LONG-TERM PROMISSORY NOTES**

The following are the contractual maturities of promissory notes:

|   | Currency | Due  | 31 December<br>2009 | 31 December<br>2008 |
|---|----------|------|---------------------|---------------------|
| Promissory notes                                    | RR       | 2010 | 846                 | 765                 |
| Promissory notes                                    | RR       | 2011 | 1,397               | 1,264               |
| Promissory notes                                    | RR       | 2012 | 798                 | 723                 |
|   |          |      | <b>3,041</b>        | <b>2,752</b>        |
| Less: current portion of long-term promissory notes |          |      | (846)               | -                   |
|   |          |      | <b>2,195</b>        | <b>2,752</b>        |

As of 31 December 2009 and 2008, long-term promissory notes with the carrying value of RR 3,041 and RR 2,752, respectively, represent promissory notes issued by the Group in 2005 to OAO Gazprom group subsidiary – OOO Factoring-Finance (see Note 34). As of 31 December 2009 and 2008, the nominal value of these promissory notes is RR 3,590.

The fair value of these interest-free promissory notes on the date of issue was RR 6,165. It was determined based on notes' maturities and a discount rate of 10.5% per annum, which was current financing rate of the Group.

**20. LONG-TERM BORROWINGS**

|  | Currency  | Interest rate         | Due        | 31 December<br>2009 | 31 December<br>2008 |
|--|-----------|-----------------------|------------|---------------------|---------------------|
| Secured bank loan                                  | RR        | 10,5%                 | 2010       | 300                 | -                   |
| Secured bank loan                                  | RR        | 12,04%                | 2011       | 720                 | -                   |
| Secured bank loan                                  | US dollar | 6 month LIBOR + 4.00% | 2009       | -                   | <b>588</b>          |
| Secured bank loan                                  | US dollar | 1 month LIBOR + 4.90% | 2009-2010- | -                   | 1,175               |
| Finance lease liabilities                          | RR        | 11,3%                 | 2012       | 84                  | -                   |
|  |           |                       |            | <b>1,104</b>        | <b>1,763</b>        |
| Less: current portion of long-term bank borrowings |           |                       |            | (333)               | (1,175)             |
|  |           |                       |            | <b>771</b>          | <b>588</b>          |

The Group does not have borrowings that are convertible into equity instruments of the Group.

The Group does not have formal hedging arrangements to mitigate foreign exchange risk or interest rate risk.

**21. PROVISIONS FOR LIABILITIES AND CHARGES**

| <b>Provision for site restoration</b>             | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
|---|-----------------------------|-----------------------------|
| Balance at the beginning of the reporting period  | 686                         | 428                         |
| Additional provision                              | 258                         | 36                          |
| Accretion expense                                 | 18                          | 25                          |
| Changes in estimate                               | 126                         | 197                         |
| <b>Balance at the end of the reporting period</b> | <b>1,088</b>                | <b>686</b>                  |

The Group recognizes legal obligations for estimated dismantlement of equipment and abandonment of wells. The cost of abandonment of wells and dismantling of equipment is included in the value of property, plant and equipment and is written off throughout the useful life of property, plant and equipment. Costs were discounted to net present value using a discount rate of 1.04% (2008: 2.66%) per annum, based on the expected dates of dismantlement from 2018 to 2025.

**22. SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS**

|  | <b>Currency</b> | <b>Interest rate</b> | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
|--|-----------------|----------------------|-----------------------------|-----------------------------|
| Secured bank loan  | RR              | 14,2%                | 378                         | -                           |
| Secured bank loan  | RR              | 19%                  | 160                         | -                           |
| Secured bank loan  | RR              | 20,15%               | 70                          | -                           |
| Secured bank loan  | RR              | 14,9%                | 69                          | -                           |
| Secured bank loan  | RR              | 10.5%                | -                           | 800                         |
| Current portion of long-term borrowings<br>(see Note 20) | RR              |                      | 333                         | -                           |
| Current portion of long-term borrowings<br>(see Note 20) | US dollar       |                      | -                           | 1,175                       |
|  |                 |                      | <b>1,010</b>                | <b>1,975</b>                |

**23. ACCOUNTS PAYABLE AND ACCRUED CHARGES**

|                             | <b>Note</b> | <b>31 December<br/>2009</b> | <b>31 December<br/>2008</b> |
|-----------------------------|-------------|-----------------------------|-----------------------------|
| Payables to related parties | 34          | 23                          | 51                          |
| Advances received           |             | 48                          | 11                          |
| Trade payables              |             | 190                         | 191                         |
| Wages and salary            |             | 9                           | 10                          |
| Interest payable            |             | 6                           | 5                           |
| Other payables              |             | 51                          | 50                          |
|                             |             | <b>327</b>                  | <b>318</b>                  |

**24. OTHER TAXES PAYABLE**

|   | 31 December<br>2009 | 31 December<br>2008 |
|---|---------------------|---------------------|
| Value added tax   | 187                 | 59                  |
| Mineral extraction tax                                  | 138                 | 42                  |
| Property tax  | 60                  | 45                  |
| Tax penalties and interest                              | 11                  | 18                  |
| Other taxes   | 8                   | 6                   |
|   | 404                 | 170                 |
| Less: long-term portion of restructured tax liabilities | (4)                 | (9)                 |
|   | 400                 | 161                 |

The long-term portion of restructured tax liabilities comprise various taxes, penalties and interest which were previously past due and which were restructured in 2001 following the application of Government Resolution dated 3 September 1999 No.1002. The Group's current restructuring agreements presume payments of outstanding restructured taxes over a period of ten years, in accordance with agreed payment schedules.

Based on the contractual dates of repayment, a discount rate of 11% per annum was used in the estimation of the fair value of these liabilities.

The amortization of the discount (representing the difference between the nominal and discounted value of the restructured taxes) amounting to RR 2 and RR 3 for the years ended 31 December 2009 and 2008, respectively, is recorded within imputed interest expense on promissory notes.

The long-term portion of restructured tax liabilities, recorded within other long-term liabilities, has the following maturities:

|  | 31 December<br>2009 | 31 December<br>2008 |
|--|---------------------|---------------------|
| Between one and two years                        | 5                   | 6                   |
| Between two and five years                       | -                   | 6                   |
|  | 5                   | 12                  |
| Less: unamortized discount on restructured taxes | (1)                 | (3)                 |
|  | 4                   | 9                   |

**25. SHAREHOLDERS' EQUITY**
**Share capital**

Share capital authorized, issued and paid-in as of 31 December 2009 and 2008 consists of 2,276,000 ordinary shares, each with a nominal value of RR 1 thousand. OAO Gazprom's share in the Group's equity equals 99.98%. Voting at the General Meeting of Shareholders of the Company is performed as follows: "one voting share – one vote". The decision on payment of dividends, the amount of dividends and the form of their payment is adopted by the General Meeting of Shareholders of the Company.

**Additional paid in capital**

From 1998 to 2000 the Group issued long-term promissory notes to and received RR denominated borrowings from OAO Gazprom at beneficial interest rates. The difference of RR 9,781 between the fair and the nominal value of the borrowings net of income tax has been credited to additional paid in capital.

In November 2005, the Group exchanged these promissory notes with the company under common control of OAO Gazprom. The net result of this transaction of RR 594 net of income tax was recorded as a reduction of additional paid-in capital.

**Dividends**

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. The Company had retained earnings of RR 1,074 and RR 1,144 for the years ended 31 December 2009 and 2008, respectively.

**26. INCOME TAX**

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

|   | Year ended<br>31 December 2009 | Year ended<br>31 December 2008 |
|---|--------------------------------|--------------------------------|
| Profit before income tax  | 2,174                          | 3,055                          |
| Theoretical tax charge at statutory rate of 20% (24% in 2008)                 | (435)                          | (733)                          |
| Tax effect of non-deductible items and items not included in income tax base: |                                |                                |
| Non-taxable income / (non-deductible expenses)                                | (131)                          | 40                             |
| Effect of change in tax rate  | -                              | 94                             |
| Disposal of investments in jointly controlled entity                          | 703                            | -                              |
| Other   | -                              | 9                              |
| <b>Income tax expense</b>   | <b>137</b>                     | <b>(590)</b>                   |

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 income tax purposes. The government enacted a change in income tax rate from 24% to 20% in November 2008. The change is effective from 1 January 2009. The tax effect of temporary differences as of 31 December 2009 and 31 December 2008 is recorded at the rate of 20%.

|  | 31 December<br>2009 | Additions on<br>consolidation of<br>subsidiary | Recognised in<br>profit | 31 December<br>2008 |
|--|---------------------|--|-------------------------|---------------------|
| <b>Deferred income tax liabilities</b>   |                     |  |                         |                     |
| Long-term promissory notes               | 110                 | -  | (57)                    | 167                 |
| Property, plant and equipment            | 484                 | 208  | 208                     | 68                  |
| Investments in jointly controlled entity | -                   | -  | (703)                   | 703                 |
| Intangible assets                        | 43                  | 43   | -                       | -                   |
| Other                                    | -                   | -  | (1)                     | 1                   |
| <b>Deferred income tax assets</b>        |                     |  |                         |                     |
| Accounts receivable                      | (68)                | -  | (1)                     | (67)                |
| Provisions for liabilities and charges   | (218)               | -  | (81)                    | (137)               |
| Other                                    | (55)                | -  | (10)                    | (45)                |
| <b>Net deferred income tax liability</b> | <b>296</b>          | <b>251</b>                                     | <b>(645)</b>            | <b>690</b>          |

|  | 31 December<br>2008 | Recognized in<br>profit | 31 December<br>2007 |
|--|---------------------|-------------------------|---------------------|
| <b>Deferred income tax liabilities</b>   |                     |                         |                     |
| Long-term promissory notes               | 167                 | (97)                    | 264                 |
| Property, plant and equipment            | 68                  | (24)                    | 92                  |
| Investments in jointly controlled entity | 703                 | 234                     | 469                 |
| Other                                    | 1                   | (1)                     | 2                   |
| <b>Deferred income tax assets</b>        |                     |                         |                     |
| Accounts receivable                      | (67)                | 20                      | (87)                |
| Provisions for liabilities and charges   | (137)               | (18)                    | (119)               |
| Other                                    | (45)                | 14                      | (59)                |
| <b>Net deferred income tax liability</b> | <b>690</b>          | <b>128</b>              | <b>562</b>          |

In accordance with Tax Code of the Russian Federation, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred income tax asset of one company in the Group cannot be offset against a deferred income tax liability of another company in the Group.

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 8,433 and RR 6,246 as of 31 December 2009 and 2008, 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 they will not reverse in the foreseeable future.

## 27. SALES

|                                   | Year ended<br>31 December 2009 | Year ended<br>31 December 2008 |
|-----------------------------------|--------------------------------|--------------------------------|
| Revenue from gas sales            |                                |                                |
| Russian Federation                | 5,078                          | 5,313                          |
|                                   | 5,078                          | 5,313                          |
| Revenue from gas condensate sales |                                |                                |
| Export                            | 1,369                          | 750                            |
| Russian Federation                | 1,626                          | 888                            |
|                                   | 2,995                          | 1,638                          |
| Revenue from methanol sales       |                                |                                |
| Export                            | 610                            | -                              |
| Russian Federation                | 1,207                          | -                              |
|                                   | 1,817                          | -                              |
| Other revenue                     |                                |                                |
| Railway tariff                    | 376                            | -                              |
| Other                             | 726                            | 681                            |
|                                   | 1,102                          | 681                            |
|                                   | <b>10,992</b>                  | <b>7,632</b>                   |

Included in the amount of sales are domestic sales of gas condensate to Trade-Nafta in the amount of RR 1,626 and RR 886 for the years ended 31 December 2009 and 2008, respectively, as well as export sales of gas condensate to Hawar Holdings Ltd in the amount of RR 1,369 and RR 750 for the year ended 31 December 2009 and 31 December 2008 respectively.

Revenue from export gas condensate sales for the years ended 31 December 2009 and 2008 is shown net of export duties of RR 1,128 and RR 860, respectively.

**28. PRODUCTION COSTS**

|   | Year ended<br>31 December 2009 | Year ended<br>31 December 2008 |
|---|--------------------------------|--------------------------------|
| Depreciation of property, plant and equipment | 1,216                          | 989                            |
| Staff costs                                   | 913                            | 630                            |
| Materials                                     | 376                            | 210                            |
| Rent  | 43                             | 54                             |
| Fuel and energy                               | 237                            | 65                             |
| Fire safety                                   | 110                            | 125                            |
| Maintenance services                          | 148                            | 134                            |
| Railway tariff                                | 377                            | -                              |
| Other   | 3                              | 101                            |
|   | <b>3,423</b>                   | <b>2,308</b>                   |

**29. TAXES OTHER THAN ON INCOME**

|                        | Year ended<br>31 December 2009 | Year ended<br>31 December 2008 |
|------------------------|--------------------------------|--------------------------------|
| Mineral extraction tax | 1,383                          | 812                            |
| Property tax           | 224                            | 187                            |
| Tax reserves           | 60                             | -                              |
| Other taxes            | 47                             | 40                             |
|                        | <b>1,714</b>                   | <b>1,039</b>                   |

Taxes other than on income are computed as follows:

- Since 1 January 2006 the rate of mineral extraction tax was changed to RR 147.00 (one hundred and forty seven roubles) per thousand cubic meters of natural gas produced;
- Property tax is imposed at a maximum rate of 2.2% on the average annual statutory net book value of fixed assets.

**30. SELLING AND TRANSPORTATION COSTS**

|                  | Year ended<br>31 December 2009 | Year ended<br>31 December 2008 |
|------------------|--------------------------------|--------------------------------|
| Transport        | 1,777                          | 1,075                          |
| Selling expenses | 52                             | 26                             |
|                  | <b>1,829</b>                   | <b>1,101</b>                   |

**31. GENERAL AND ADMINISTRATIVE EXPENSES**

|  | Year ended<br>31 December 2009 | Year ended<br>31 December 2008 |
|--|--------------------------------|--------------------------------|
| Staff costs                                | 388                            | 337                            |
| Freight services                           | 26                             | 46                             |
| Administrative expense                     | 332                            | 311                            |
| Consulting, information and audit services | 36                             | 42                             |
| Sponsorship and charity                    | 4                              | 7                              |
|  | <b>786</b>                     | <b>743</b>                     |

**32. FINANCIAL INCOME AND EXPENSE**

|  | Year ended<br>31 December 2009 | Year ended<br>31 December 2008 |
|--|--------------------------------|--------------------------------|
| <b>Financial expense</b>                     |                                |                                |
| Imputed interest expense on promissory notes | (291)                          | (264)                          |
| Accretion expense                            | (18)                           | (25)                           |
| Interest expense on borrowings               | (324)                          | (217)                          |
| Exchange loss                                | -                              | (320)                          |
|  | <b>(633)</b>                   | <b>(826)</b>                   |
| <b>Financial income</b>                      |                                |                                |
| Exchange gain                                | 52                             | -                              |
| Other  | 8                              | 90                             |
|  | <b>60</b>                      | <b>90</b>                      |

**33. FINANCIAL INSTRUMENTS**
**Credit risk**
**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as of the reporting date was:

|  | Note | Carrying amount |              |
|--|------|-----------------|--------------|
|  |      | 2009            | 2008         |
| Other long-term receivables                      | 15   | 2               | 103          |
| Other long-term receivables from related parties | 15   | 6               | 7            |
| Cash and cash equivalents                        | 16   | 426             | 717          |
| Bank deposits                                    | 16   | 62              | -            |
| Trade accounts receivable                        | 17   | 947             | 571          |
| Other accounts receivable                        | 17   | 53              | 115          |
|  |      | <b>1,496</b>    | <b>1,513</b> |

Two of Group's most significant customers, ООО Mezhhregiongas and ООО Gazprom komplektasia, accounts for RR 660 and RR 247 of the trade receivables carrying amount as of 31 December 2009 and 2008, respectively.

**Impairment losses**

The aging of short term trade and other receivables was as follows:

|                     | Gross amount | Impairment   | Gross amount | Impairment   |
|---------------------|--------------|--------------|--------------|--------------|
|                     | 2009         | 2009         | 2008         | 2008         |
| Not past due        | 965          | -            | 615          | -            |
| Past due 0-45 days  | -            | -            | 7            | -            |
| Past due 46-90 days | 2            | -            | 1            | -            |
| More than 90 days   | 199          | (166)        | 234          | (171)        |
|                     | <b>1,166</b> | <b>(166)</b> | <b>857</b>   | <b>(171)</b> |



**ОАО ВОСТОКГАЗПРОМ**

Notes to the IFRS Consolidated Financial Statements for the year ended 31 December 2009  
(in millions of Russian Roubles)

The movements in the allowance for impairment in respect of short-term trade and other receivables during the year was as follows:

|                               | 31 December 2009 | 31 December 2008 |
|-------------------------------|------------------|------------------|
| Balance at 1 January          | 171              | 314              |
| Impairment loss recognized    | 31               | 5                |
| Impairment loss reversed      | (36)             | (148)            |
| <b>Balance at 31 December</b> | <b>166</b>       | <b>171</b>       |

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of receivables past due by up to 90 days.

**Liquidity risk**

The following are the contractual maturities of financial liabilities, including estimated interest payments.

**31 December 2009**

|                            | Carrying amount | Contractual cash flows | 12 months or less | 1-2 years    | 2-5 years |
|----------------------------|-----------------|------------------------|-------------------|--------------|-----------|
| Secured bank loans         | 1,697           | 1,940                  | 1,134             | 806          | -         |
| Finance lease liabilities  | 84              | 121                    | 37                | 84           | -         |
| Long-term promissory notes | 3,041           | 3,590                  | 920               | 2,670        | -         |
| Trade and other payables   | 228             | 228                    | 228               | -            | -         |
|                            | <b>5,050</b>    | <b>5,879</b>           | <b>2,319</b>      | <b>3,560</b> | <b>-</b>  |

**31 December 2008**

|                            | Carrying amount | Contractual cash flows | 12 months or less | 1-2 years  | 2-5 years    |
|----------------------------|-----------------|------------------------|-------------------|------------|--------------|
| Secured bank loans         | 2,563           | 2,714                  | 2,090             | 624        | -            |
| Long-term promissory notes | 2,752           | 3,590                  | -                 | -          | 3,590        |
| Trade and other payables   | 279             | 279                    | 279               | -          | -            |
|                            | <b>5,594</b>    | <b>6,583</b>           | <b>2,369</b>      | <b>624</b> | <b>3,590</b> |

**Currency risk****Exposure to currency risk**

The Group's exposure to foreign currency risk was as follows:

|                           | Denomination | 31 December 2009 | 31 December 2008 |
|---------------------------|--------------|------------------|------------------|
| Trade accounts receivable | US dollar    | 171              | 8                |
| Cash and cash equivalents | US dollar    | 9                | 259              |
| Cash and cash equivalents | EURO         | -                | 124              |
| Secured bank loans        | US dollar    | -                | (1,763)          |
|                           |              | <b>180</b>       | <b>(1,372)</b>   |

**Sensitivity analysis**

As of 31 December 2009, if the US dollar had strengthened by 10% against the Russian rouble with all other variables held constant, net profit and total equity would have been RR 14 higher (2008: RR 104 lower) mainly as a result of foreign exchange gains on translation of US dollar-denominated accounts receivable.

**Interest rate risk**
**Profile**

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

|                                  | <b>Carrying amount</b> |                |
|----------------------------------|------------------------|----------------|
|                                  | <b>2009</b>            | <b>2008</b>    |
| <b>Fixed rate instruments</b>    |                        |                |
| Financial assets                 | <b>289</b>             | 359            |
| Financial liabilities            | <b>(1,697)</b>         | (800)          |
|                                  | <b>(1,408)</b>         | <b>(441)</b>   |
| <b>Variable rate instruments</b> |                        |                |
| Financial liabilities            | -                      | (1,763)        |
|                                  | -                      | <b>(1,763)</b> |

**Fair value sensitivity analysis**

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore a change in interest rates at the reporting date would not affect net profit.

As of 31 December 2008, if interest rates had been 10 basis points higher with all other variables held constant, net profit and equity would have been RR 1.3 lower mainly as a result of higher interest expense on variable rate borrowings.

**Fair values**

The fair value of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

|                                     | <b>31 December 2009</b> |                   | <b>31 December 2008</b> |                   |
|-------------------------------------|-------------------------|-------------------|-------------------------|-------------------|
|                                     | <b>Carrying amount</b>  | <b>Fair value</b> | <b>Carrying amount</b>  | <b>Fair value</b> |
| Other long-term receivables         | 8                       | 8                 | 103                     | 60                |
| Trade and other accounts receivable | 1,000                   | 1,000             | 686                     | <b>686</b>        |
| Cash and cash equivalents           | 426                     | 426               | 717                     | <b>717</b>        |
| Bank deposits                       | 62                      | 62                | -                       | -                 |
| Trade and other payables            | (228)                   | (228)             | (295)                   | (295)             |
| Promissory notes                    | (3,041)                 | (2,894)           | (2,752)                 | (2,638)           |
| Finance lease liabilities           | <b>(84)</b>             | (84)              | -                       | -                 |
| Secured bank loans                  | (1,697)                 | (1,671)           | (2,563)                 | (2,522)           |
|                                     | <b>(3,554)</b>          | <b>(3,381)</b>    | <b>(4,104)</b>          | <b>(3,992)</b>    |

**ОАО ВОСТОКГАЗПРОМ**

Notes to the IFRS Consolidated Financial Statements for the year ended 31 December 2009  
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*Interest rates used for determining fair value*

|                             | 2009          | 2008          |
|-----------------------------|---------------|---------------|
| Other long-term receivables | -             | 12.2% - 12.4% |
| Finance lease liabilities   | 11.3%         | -             |
| Loans and borrowings        | 14.3%         | 11.7%         |
| Promissory notes            | 13.8% - 13.9% | 12.2% - 12.4% |

**34. RELATED PARTIES**

For the purpose of these 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 or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2009 are detailed below:

|  | Nature of relationship                |
|--|---------------------------------------|
| ОАО Газпром                              | Parent company                        |
| ОАО Красноярскгазпром                    | Fellow subsidiary of ОАО Газпром      |
| ООО Межрегионгаз                         | Fellow subsidiary of ОАО Газпром      |
| ООО Газпром трансгаз Томск               | Fellow subsidiary of ОАО Газпром      |
| ООО Factoring Finance                    | Fellow subsidiary of ОАО Газпром      |
| ОАО Алтайгазпром                         | Fellow subsidiary of ОАО Газпром      |
| ОАО Иркутскгазпром                       | Fellow subsidiary of ОАО Газпром      |
| ОАО Кузбассгазпром                       | Fellow subsidiary of ОАО Газпром      |
| ООО Востокресурс                         | Fellow subsidiary of ОАО Газпром      |
| ОАО Западнo-сибирское речное пароходство | Associate of the Group                |
| ОАО Газпромтранс                         | Fellow subsidiary of ОАО Газпром      |
| ООО Газпром комплектasia                 | Fellow subsidiary of ОАО Газпром      |
| ОАО Газпромтрубинвест                    | Fellow subsidiary of ОАО Газпром      |
| ОАО Газпромнефть                         | Fellow subsidiary of ОАО Газпром      |
| ООО Газпромнефть – Восток                | Fellow subsidiary of ОАО Газпромнефть |

The Group's transactions with state-controlled entities are disclosed in Notes 16, 24 and 26. The transactions with state-controlled entities are on the same terms and subject to the same review and approval processes as transactions with entities that are not state-controlled.

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

ОАО Газпром prepares publicly available financial statements.

**ОАО VOSTOKGAZPROM**

Notes to the IFRS Consolidated Financial Statements for the year ended 31 December 2009  
(in millions of Russian Roubles)

Significant transactions with related parties during the year were as follows:

|   | Pricing                     | Year ended<br>31 December 2009 | Year ended<br>31 December 2008 |
|---|-----------------------------|--------------------------------|--------------------------------|
| <b>ОАО Gazprom</b>                              |                             |                                |                                |
| Purchase of gas transportation services         | ОАО Gazprom internal prices | 1,018                          | 742                            |
| <b>ОАО Gazpromtrubinvest</b>                    |                             |                                |                                |
| Purchase of construction supplies               | Market based                | 143                            | -                              |
| <b>ООО Mezhhregiongas</b>                       |                             |                                |                                |
| Sale of gas                                     | FTS tariffs                 | 4,674                          | 3,472                          |
| <b>ОАО Gazpromneft</b>                          |                             |                                |                                |
| Sales of methanol                               | Market based                | 87                             | -                              |
| <b>ООО Gazprom komplektasia</b>                 |                             |                                |                                |
| Sales of methanol                               | Market based                | 722                            | -                              |
| Sales of inventories                            | Market based                | 28                             | -                              |
| <b>ОАО Gazpromtrans</b>                         |                             |                                |                                |
| Railway tariff                                  | Market based                | 376                            | -                              |
| Tank rendering                                  | Market based                | 174                            | -                              |
| Purchase of methanol transportation services    | Market based                | 88                             | -                              |
| <b>SMD Chemicals</b>                            |                             |                                |                                |
| Sale of gas                                     | FTS tariffs                 | -                              | 1,435                          |
| <b>ООО Gazpromneft - Vostok</b>                 |                             |                                |                                |
| Purchase of construction supplies               | Market based                | 11                             | -                              |
| Sales of gas condensate transportation services | Market based                | 31                             | -                              |
| Rendering of car services                       | Market based                | 2                              | 8                              |

The Group has the following balances with related parties as of 31 December 2009 and 2008.

**Accounts receivable and prepayments**

|                          | 31 December 2009 |                      |                | 31 December 2008 |                      |                |
|--------------------------|------------------|----------------------|----------------|------------------|----------------------|----------------|
|                          | Cost             | Impairment provision | Carrying value | Cost             | Impairment provision | Carrying value |
| ООО Mezhhregiongaz       | 231              | -                    | 231            | 247              | -                    | 247            |
| ООО Gazprom komplektasia | 429              | (11)                 | 418            | -                | -                    | -              |
| ООО Vostokresurs         | 80               | (80)                 | -              | 92               | (92)                 | -              |
| ОАО Gazprom              | 4                | -                    | 4              | 4                | -                    | 4              |
| SMD Chemicals            | -                | -                    | -              | 4                | -                    | 4              |
| ОАО Irkutskgazprom       | -                | -                    | -              | 15               | (15)                 | -              |
| ОАО Gazpromtrans         | 8                | -                    | 8              | -                | -                    | -              |
| ОАО Kuzbassgazprom       | 44               | (44)                 | -              | 44               | (44)                 | -              |
| Other                    | 8                | (4)                  | 4              | 15               | (4)                  | 11             |
|                          | 804              | (139)                | 665            | 421              | (155)                | 266            |

**Accounts payable and accrued charges**

|                      | 31 December 2009 | 31 December 2008 |
|----------------------|------------------|------------------|
| ОАО Gazprom          | 16               | 18               |
| ООО Vostokresurs     | 6                | 6                |
| ОАО Gazpromregiongaz | -                | 23               |
| Other                | 1                | 4                |
|                      | 23               | 51               |

**Long-term promissory notes**

|                            | 31 December 2009 | 31 December 2008 |
|----------------------------|------------------|------------------|
| Long-term promissory notes | 3,041            | 2,752            |
|                            | 3,041            | 2,752            |

Long-term promissory notes were issued to ОАО Gazprom subsidiary ООО Factoring Finance (see Note 19).

**Directors' remuneration**

The Group paid to members of the Board of Directors and Management Committee salary and bonuses of approximately RR 178 and RR 199 for the years ended 31 December 2009 and 2008, respectively. These amounts are included in "Administrative expenses", see Note 31.

**35. COMMITMENTS, CONTINGENCIES AND OPERATING RISKS**
**Taxation**

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

As of 31 December 2009, the Group management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs position will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements within provisions for liabilities and charges. However, the relevant tax authorities may have differing interpretations and the effects on the financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

As of 31 December 2009 the Group created a provision for contingent tax liabilities for the total amounts of RR 60 (see Note 29). The management believes that the provision reflected in the financial statements is enough to cover potential expenses on tax authorities' claims.

**Insurance**

The insurance industry in the Russian Federation is in a developing state. Management believes that the Group has adequate property damage coverage for its main production assets. The Group does not have full coverage for business interruption, third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

**Environmental matters**

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.

Environmental regulations are currently under consideration in the Russian Federation. The Group routinely assess and evaluate their obligations in response to new and changing legislation. As liabilities in respect of the Group's environmental obligations are able to be determined, they are charged against income over the estimated remaining lives of the related assets or recognized immediately depending on their nature. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material.

Under existing legislation, however, management believes that there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

**Capital commitments**

In the normal course of business, the Group has entered into contracts for the purchase and construction of property, plant and equipment and exploration work for 2010 in the amount of 3,387.

**ОАО ВОСТОКГАЗПРОМ**

**Contact details**

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