OAO VOSTOKGAZPROM
IFRS CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

CONTENTS

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Independent Auditors' Report

To the Board of directors of
OAO Vostokgazprom

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 at 31 December 2010, 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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
16 March 2011

(In millions of Russian Roubles)

	Notes	31 December 2010	31 December 2009
Assets			
Non-current assets			
Property, plant and equipment	10	19,224	15,664
Intangible assets	11	2,301	2,285
Exploration and evaluation assets	12	437	611
Investment in associate		25	-
Deferred income tax assets	25	24	25
Other non-current assets	14	18	41
Total non-current assets		**22,029**	**18,626**
Current assets			
Cash and cash equivalents	15	650	426
Bank deposits		-	62
Prepayments and advances		154	80
Income tax receivable		115	90
Accounts receivable	16	1,527	1,298
Inventories	17	660	471
Assets held for sale	13	54	405
Total current assets		**3,160**	**2,832**
Total assets		**25,189**	**21,458**
Equity and liabilities			
Equity			
Share capital	24	2,276	2,276
Additional paid in capital	24	9,187	9,187
Retained earnings		6,519	2,826
Total equity attributable to equity holders of the Company		**17,982**	**14,289**
Non-controlling interest	9	32	35
Total equity		**18,014**	**14,324**
Liabilities			
Non-current liabilities			
Long-term promissory notes	18	882	2,195
Long-term borrowings	19	1,726	771
Deferred income tax liabilities	25	315	321
Provisions for liabilities and charges	20	1,061	1,088
Other long-term liabilities		74	4
Total non-current liabilities		**4,058**	**4,379**
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	21	64	1,010
Current portion of long-term promissory notes	18	1,544	846
Accounts payable and accrued charges	22	1,131	327
Liabilities classified as held for sale	13	-	83
Income tax payable		-	29
Provisions	33	31	60
Other taxes payable	23	347	400
Total current liabilities		**3,117**	**2,755**
Total liabilities		**7,175**	**7,134**
Total equity and liabilities		**25,189**	**21,458**

Vitaly A. Kutepov
President
16 March 2011

Natalia S.Zayka
Chief Accountant
16 March 2011

(in millions of Russian Roubles)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Sales	26	15,453	10,616
Production costs	27	(6,379)	(4,705)
Gross profit		**9,074**	**5,911**
Selling and transportation costs	28	(2,474)	(1,829)
General and administrative expenses	29	(915)	(842)
Exploration expenses		(385)	(381)
Other expenses		(4)	(112)
Operating profit		**5,296**	**2,747**
Finance income	30	23	60
Finance costs	30	(535)	(633)
Profit before income tax		**4,784**	**2,174**
Current income tax		(861)	(508)
Deferred income tax		5	645
Income tax (expense)/ benefit	25	(856)	137
Profit for the year		**3,928**	**2,311**
Total comprehensive income for the year		**3,928**	**2,311**

(In millions of Russian Roubles)

	Year ended 31 December 2010	Year ended 31 December 2009
Profit before income tax	4,784	2,174
Adjustments for:		
Depreciation of property, plant and equipment	1,580	1,216
Amortization of intangible and exploration and evaluation assets	29	16
Net finance costs	512	573
Reversal of provision for impairment of accounts receivable	(64)	(1)
Reversal of provision for impairment of investment in associate	(25)	-
Provision for tax claims	(29)	60
Loss on disposals and impairment of property, plant and equipment	18	11
Loss on disposal and impairment of intangible assets and exploration and evaluation assets	164	186
Other	7	38
Net operating cash flow before changes in working capital	**6,976**	**4,273**
(Increase) / decrease in inventories	(182)	150
(Increase) / decrease in accounts receivable and prepayments	(222)	371
(Decrease) / increase in taxes payable other than income tax	(60)	220
Increase / (decrease) in accounts payable and accrued charges	56	(200)
Cash flows from operations before income tax and interest paid	**6,568**	**4,814**
Income tax paid	(906)	(912)
Interest paid	(202)	(323)
Net cash provided by operating activities	**5,460**	**3,579**
Cash flows from investing activities		
Capital expenditures	(4,316)	(3,088)
Purchase of exploration and evaluation assets	(6)	(237)
Cash of acquired subsidiary	-	379
Proceeds from disposal of property, plant and equipment	164	20
Withdrawal of bank deposits / (placement in bank deposits)	62	(62)
Net cash used in investing activities	**(4,096)**	**(2,988)**
Cash flows from financing activities		
Proceeds from borrowings	6,516	4,421
Repayments of borrowings	(6,501)	(5,303)
Repayments of promissory notes	(920)	-
Dividends paid	(235)	-
Net cash used in financing activities	**(1,140)**	**(882)**
Net increase / (decrease) in cash and cash equivalents	**224**	**(291)**
Cash and cash equivalents at beginning of year	426	717
Cash and cash equivalents at end of year	**650**	**426**

(in millions of Russian Roubles)

	Attributable to equity holders of the Company					
	Share capital	Additional paid in capital	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 1 January 2009	2,276	9,187	515	11,978	-	11,978
Profit for the year	-	-	2,311	2,311	-	2,311
Total comprehensive income for the year	-	-	2,311	2,311	-	2,311
Non-controlling interest	-	-	-	-	35	35
Balance as at 31 December 2009	2,276	9,187	2,826	14,289	35	14,324
Balance as at 1 January 2010	2,276	9,187	2,826	14,289	35	14,324
Profit for the year	-	-	3,928	3,928	-	3,928
Total comprehensive income for the year	-	-	3,928	3,928	-	3,928
Transactions with owners, recorded directly in equity						
Acquisition of non-controlling interest in subsidiary	-	-	-	-	(3)	(3)
Dividends	-	-	(235)	(235)	-	(235)
Total transactions with owners	-	-	(235)	(235)	(3)	(238)
Balance as at 31 December 2010	2,276	9,187	6,519	17,982	32	18,014

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 Podgornaya 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 at 31 December 2010 and 31 December 2009.

2. RUSSIAN BUSINESS ENVIRONMENT

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. 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 national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Certain comparative amounts have been reclassified to conform to the current period presentation.

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 method. 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss.

If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

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 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 interest method.

(in millions of Russian Roubles)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 labour, 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 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 assets are assessed for impairment (see Note 4.7) 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 profit or loss.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Intangible 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 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, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The recoverable amount of an asset or CGU 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually 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 CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) 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 and 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 recognised in respect of 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 reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Finance income and costs

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 costs 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 33).

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: Myldjinsky and Severo-Vasygan gas fields and methanol production plant, that are expected to benefit from the synergies of the business combination. 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 11.

5.5 Provisions for site restoration

The Group recognizes provisions when 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

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, 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 (2010)* 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.
- Amended IFRS 7 Disclosures – Transfers of Financial Assets introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.
- 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 phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. 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. The Group does not intend to adopt this standard early.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance on accounting for debt for equity swaps by the debtor. The interpretation clarifies that an entity's equity instruments qualify as "consideration paid" in accordance with paragraph 41 of International Financial Reporting Standards IAS 39 *Financial Instruments: Recognition and Measurement*. Additionally, the interpretation clarifies how to account for the initial measurement of own equity instruments issued to extinguish a financial liability and how to account for the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued. IFRIC 19 is applicable for annual periods beginning on or after 1 July 2010.

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 2011. 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.

7. DETERMINATION OF FAIR VALUES (continued)

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.

8. FINANCIAL RISK MANAGEMENT (continued)

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 16). Approximately 64% 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 19. The Group has no significant interest-bearing assets other than fixed rate bank deposits disclosed in Note 15.

(in millions of Russian Roubles)

8. FINANCIAL RISK MANAGEMENT (continued)

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 Group does not have formal policy for capital management, but aims 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 %* as at 31 December 2010	Ownership %* as at 31 December 2009
Subsidiaries			
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	79
OOO Tomskneftegazpererabotka	Oil processing	100	100
SMD Chemicals	Refining of petrochemical products	100	100
OAO Zolotaya gorka - odin	Capital construction	71	66
OOO Gaztransservice	Transportation services	100	100
OOO Vostok-Infra	Non-residential property management	100	100
Associates and joint ventures			
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 millions of Russian Roubles)

9. GROUP STRUCTURE (continued)

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 enabled 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.

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

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

In August 2009 the Group has acquired additional 20% share in OAO Zolotaya gorka – odin and increased its share from 46% to 66%. As a result of the acquisition the Group has recognized non-controlling interest for the amount of RR 35. In 2010 the Group has increased its share in OAO Zolotaya gorka – odin to 71%. As a result, the Group's non-controlling interest as at 31 December 2010 amounted to RR 32.

(in millions of Russian Roubles)

10. PROPERTY, PLANT AND EQUIPMENT

	Pipelines	Wells	Buildings and roads	Machinery and equipment	Construction in progress	Total
Historical cost:						
As at 1 January 2009	**1,003**	**3,821**	**3,946**	**8,231**	**3,167**	**20,168**
Changes over the period:						
Additions	-	69	75	430	2,885	3,459
Acquisitions through business combinations	-	-	73	1,389	22	1,484
Transfers	-	1,201	149	1,440	(2,790)	-
Disposals	-	-	(47)	(77)	(30)	(154)
As at 31 December 2009	**1,003**	**5,091**	**4,196**	**11,413**	**3,254**	**24,957**
As at 1 January 2010	**1,003**	**5,091**	**4,196**	**11,413**	**3,254**	**24,957**
Changes over the period:						
Additions	-	37	4	95	5,183	5,319
Transfers	82	2,279	254	492	(3,107)	-
Disposals	-	(6)	(26)	(221)	(15)	(268)
As at 31 December 2010	**1,085**	**7,401**	**4,428**	**11,779**	**5,315**	**30,008**
Accumulated depreciation:						
As at 1 January 2009	**(349)**	**(2,251)**	**(1,330)**	**(4,199)**	-	**(8,129)**
Depreciation over the period	(22)	(324)	(153)	(717)	-	(1,216)
Disposals	-	-	21	31	-	52
As at 31 December 2009	**(371)**	**(2,575)**	**(1,462)**	**(4,885)**	-	**(9,293)**
As at 1 January 2010	**(371)**	**(2,575)**	**(1,462)**	**(4,885)**	-	**(9,293)**
Depreciation over the period	(25)	(529)	(163)	(863)	-	(1,580)
Disposals	-	3	1	85	-	89
As at 31 December 2010	**(396)**	**(3,101)**	**(1,624)**	**(5,663)**	-	**(10,784)**
Net book value:						
As at 1 January 2009	**654**	**1,570**	**2,616**	**4,032**	**3,167**	**12,039**
As at 1 January 2010	**632**	**2,516**	**2,734**	**6,528**	**3,254**	**15,664**
As 31 December 2010	**689**	**4,300**	**2,804**	**6,116**	**5,315**	**19,224**

Production property, plant and equipment are shown net of provision for impairment of RR 2,326 as at 31 December 2010 and 31 December 2009. Assets under construction are shown net of provision for impairment of RR 145 as at 31 December 2010 and 31 December 2009.

As of 31 December 2010, property, plant and equipment with a carrying value of RR 151 was pledged as collateral for borrowings (see Note 19 and 21).

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.

(in millions of Russian Roubles)

11. INTANGIBLE ASSETS

	Goodwill	Patents	Total
Cost			
Balance at 1 January 2009	-	-	-
Acquisition through business combination	2,086	215	2,301
Balance at 31 December 2009	**2,086**	**215**	**2,301**
Balance at 1 January 2010	2,086	215	2,301
Transfer from disposal group's assets	28	-	28
Balance at 31 December 2010	**2,114**	**215**	**2,329**
Amortisation			
Balance at 1 January 2009	-	-	-
Amortisation for the period	-	(16)	(16)
Balance at 31 December 2009	-	**(16)**	**(16)**
Balance at 1 January 2010	-	(16)	(16)
Amortisation for the period	-	(12)	(12)
Balance at 31 December 2010	-	**(28)**	**(28)**
Carrying amounts			
At 1 January 2009	-	-	-
At 31 December 2009	**2,086**	**199**	**2,285**
At 31 December 2010	**2,114**	**187**	**2,301**

Impairment testing for cash generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to group of 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:

Myldjinsky gas field	1,506
Severo-Vasygan gas field	223
Methanol production plant	357
	2,086

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 nine-year business plan for Myldjinsky gas field and thirteen-year business plan for Severo-Vasygan gas field.
- The anticipated real price increase in natural gas price included in the cash flow projections was 5% for the years 2011 to 2012. Cash flows for further years were extrapolated assuming decrease in real gas price. Nominal gas price is expected to increase due to effect of inflation.
- A real discount rate of 13.8% 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 7.1% starting from 2013 during the forecasted period.

11. INTANGIBLE ASSETS (continued)

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 552.
- A 10% decrease in future production volumes would have lead to impairment loss in amount of RR 265 on Severo-Vasygan gas field.

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 2011 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 1.2% was based on anticipated increase in demand for methanol and methanol derivatives as alternative fuel.
- A real discount rate of 11.42% 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 0%.

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 decreased the projected cash flow values by RR 330.
- A 10% decrease in future production volumes would have decreased the projected cash flow values by RR 330.

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

12. EXPLORATION AND EVALUATION ASSETS

E&E assets include licenses to use mineral resources with a total value of RR 229 and RR 403 as at 31 December 2010 and 31 December 2009, respectively, and costs of exploration drilling on Rybalny field for the amount of RR 208 as at 31 December 2010 and 31 December 2009. As at 31 December 2010 the Group had licenses to use Rybalny and Somovsky fields. The Group plans to develop these fields as a result of successful expenditure incurred.

During 2010 the Group wrote-off the cost of licences to use Karandashovsky and Prokhorkinsky fields for the total amount of RR 160 in "Exploration expenses" of consolidated statement of comprehensive income due to unsuccessful expenditures incurred in relation to these fields.

(in millions of Russian Roubles)

13. ASSETS HELD FOR SALE

In 2009 the Group's management was committed to sell share in OAO Zolotaya gorka-odin. In April 2010 the sale transaction has been cancelled. As a result, net assets of OAO Zolotaya gorka-odin were reclassified from assets and liabilities held for sale. As at 31 December 2009 the disposal group comprised assets of RR 269 less liabilities of RR 83 and non-controlling interest of RR 35.

Assets held for sale as at 31 December 2010 include buildings with a total value of RR 54. The Group plans to finalise the sale of these assets during 2011.

14. OTHER NON-CURRENT ASSETS

	31 December 2010	31 December 2009
Long-term VAT recoverable	12	14
Other receivables from related parties	3	6
Other long-term receivables (net of impairment provision of RR 13 as at 31 December 2010 and 31 December 2009)	2	2
Other non-current assets	1	19
	18	**41**

15. CASH AND CASH EQUIVALENTS

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

Within cash and cash equivalents are RR 3 and RR 9 of US dollar denominated cash balances as at 31 December 2010 and 31 December 2009, respectively.

Balance of cash and cash equivalents as at 31 December 2010 includes bank deposits in the amount of RR 415. Deposits were placed with Sberbank and Nomos Bank with maturity periods less than 3 months and had interest rates of 2.68% and 3.15% per annum.

Balance of cash and cash equivalents as at 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%, 3.5% - 5%, 13% per annum, respectively.

Other bank deposits included:

	Currency	Interest rate	Year of maturity	31 December 2010	31 December 2009
Bank deposit	RR	8%	December 2010	-	62
				-	**62**

(in millions of Russian Roubles)

16. ACCOUNTS RECEIVABLE

	Note	31 December 2010	31 December 2009
Trade accounts receivable (net of impairment provision of RR 13 and RR 27 at 31 December 2010 and 31 December 2009, respectively)		398	295
Trade receivables of related parties (net of impairment provision of RR 12 and RR 67 at 31 December 2010 and 31 December 2009, respectively)	32	671	652
Taxes receivable		382	298
Other accounts receivable of related parties (net of impairment provision of RR 18 and RR 72 at 31 December 2010 and 31 December 2009, respectively)	32	13	13
Short-term promissory notes and loans (net of impairment provision of RR 1 at 31 December 2009)		1	-
Other accounts receivable		62	40
		1,527	**1,298**

The Group's exposure to credit and currency risks and impairment losses related to trade and other accounts receivable are disclosed in Note 31.

17. INVENTORIES

	31 December 2010	31 December 2009
Raw materials and supplies	476	356
Gas condensate mix and methanol	184	115
	660	**471**

18. LONG-TERM PROMISSORY NOTES

The following are the contractual maturities of promissory notes:

	Currency	Due	31 December 2010	31 December 2009
Promissory notes	RR	2010	-	846
Promissory notes	RR	2011	1,544	1,397
Promissory notes	RR	2012	882	798
			2,426	**3,041**
Less: current portion of long-term promissory notes			(1,544)	(846)
			882	**2,195**

As at 31 December 2010 and 31 December 2009, long-term promissory notes with the carrying value of RR 2,426 and RR 3,041, respectively, represent promissory notes issued by the Group in 2005 to OAO Gazprom group subsidiary – OOO Factoring-Finance (see Note 32). As at 31 December 2010 and 31 December 2009, the nominal value of these promissory notes is RR 2,670 and RR 3,590, respectively.

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

(in millions of Russian Roubles)

19. LONG-TERM BORROWINGS

	Currency	Interest rate	Due	31 December 2010	31 December 2009
Secured bank loan	RR	10.5%	2010	-	300
Secured bank loan	RR	12.04%	2011	-	720
Unsecured bank loan	RR	10.12%	2015	1,600	-
Secured bank loan	Euro	6mEuribor +4%	2011-2015	147	-
Finance lease liabilities	RR	11.3%	2010-2012	43	84
				1,790	**1,104**
Less: current portion of long-term bank borrowings				(64)	(333)
				1,726	**771**

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.

20. PROVISIONS FOR LIABILITIES AND CHARGES

Provision for site restoration	31 December 2010	31 December 2009
Balance at the beginning of the reporting period	1,088	686
Additional provision	50	258
Accretion expense	11	18
Changes in estimate	(88)	126
Balance at the end of the reporting period	**1,061**	**1,088**

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.

Expected costs based on current prices were discounted to net present value using a real discount rate of 1.87% (2009: 1.04%) per annum, based on the expected dates of dismantlement from 2019 to 2025.

21. SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS

	Currency	Interest rate	31 December 2010	31 December 2009
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
Current portion of long-term borrowings (see Note 19)			64	333
			64	**1,010**

(in millions of Russian Roubles)

22. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	Note	31 December 2010	31 December 2009
Trade payables		918	190
Payables to related parties	32	30	23
Wages and salary		22	9
Advances received		96	48
Interest payable		1	6
Other payables		64	51
		1,131	**327**

23. OTHER TAXES PAYABLE

	31 December 2010	31 December 2009
Value added tax	47	187
Mineral extraction tax	219	138
Property tax	67	60
Tax penalties and interest	4	11
Other taxes	10	8
	347	404
Less: long-term portion of restructured tax liabilities	-	(4)
	347	**400**

24. SHAREHOLDERS' EQUITY

Share capital

Share capital authorized, issued and paid-in as at 31 December 2010 and 31 December 2009 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 753 and RR 1,074 for the years ended 31 December 2010 and 31 December 2009, respectively.

The following dividends were declared and paid by the Group:

	2010	2009
103.25 rouble per ordinary share (2009: RR 0)	235	-
	235	-

(in millions of Russian Roubles)

25. INCOME TAX

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

	Year ended 31 December 2010	Year ended 31 December 2009
Profit before income tax	4,784	2,174
Theoretical tax charge at statutory rate of 20%	(957)	(435)
Tax effect of non-deductible items and items not included in income tax base:		
Non-taxable income / (non-deductible expenses)	52	(131)
Disposal of investments in jointly controlled entity	-	703
Other	49	-
Income tax (expense)/ benefit	**(856)**	**137**

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 tax effect of temporary differences as at 31 December 2010 and 31 December 2009 is recorded at the rate of 20%.

	31 December 2010	Recognised in profit or loss	31 December 2009
Deferred income tax liabilities			
Long-term promissory notes	49	(61)	110
Property, plant and equipment	513	29	484
Intangible assets	37	(6)	43
Deferred income tax assets			
Accounts receivable	(32)	36	(68)
Provisions for liabilities and charges	(212)	6	(218)
Other	(64)	(9)	(55)
Net deferred income tax liability	**291**	**(5)**	**296**

	31 December 2009	Additions on consolidation of subsidiary	Recognized in profit or loss	31 December 2008
Deferred income tax liabilities				
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
Deferred income tax assets				
Accounts receivable	(68)	-	(1)	(67)
Provisions for liabilities and charges	(218)	-	(81)	(137)
Other	(55)	-	(10)	(45)
Net deferred income tax liability	**296**	**251**	**(645)**	**690**

(in millions of Russian Roubles)

25. INCOME TAX (continued)

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 12,408 and RR 8,433 as at 31 December 2010 and 31 December 2009, respectively. A deferred tax liability on these temporary differences was not recognized because management controls the timing of the reversal of the temporary differences and they will not reverse in the foreseeable future.

26. SALES

	Year ended 31 December 2010	Year ended 31 December 2009
Revenue from gas sales		
Russian Federation	5,833	5,078
	5,833	**5,078**
Revenue from gas condensate sales		
Export	2,448	1,369
Russian Federation	2,874	1,626
	5,322	**2,995**
Revenue from methanol sales		
Export	1,639	610
Russian Federation	1,549	1,207
	3,188	**1,817**
Other revenue		
Other	1,110	726
	1,110	**726**
	15,453	**10,616**

Included in the amount of sales are domestic sales of gas condensate to Trade-Nafta in the amount of RR 2,874 and RR 1,626 for the years ended 31 December 2010 and 2009, respectively, as well as export sales of gas condensate to Hawar Holdings Ltd in the amount of RR 2,448 and RR 1,369 for the year ended 31 December 2010 and 31 December 2009, respectively.

Revenue from export gas condensate sales for the years ended 31 December 2010 and 2009 is shown net of export duties of RR 2,358 and RR 1,128, respectively.

Included in the amount of sales are export methanol sales to Cantazaro Ltd. in the amount of RR 1,630 and RR 577 for the year ended 31 December 2010 and 31 December 2009, respectively.

(in millions of Russian Roubles)

27. PRODUCTION COSTS

	Year ended 31 December 2010	Year ended 31 December 2009
Taxes	2,734	1,680
Depreciation	1,558	1,195
Staff costs	1,042	913
Materials	461	376
Fire safety	89	110
Fuel and energy	233	237
Maintenance services	199	148
Other	63	46
	6,379	**4,705**

28. SELLING AND TRANSPORTATION COSTS

	Year ended 31 December 2010	Year ended 31 December 2009
Transport	2,366	1,777
Selling expenses	108	52
	2,474	**1,829**

29. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2010	Year ended 31 December 2009
Staff costs	466	447
Administrative expense	320	274
Property tax	37	34
Freight services	32	26
Consulting, information and audit services	33	36
Depreciation	22	21
Sponsorship and charity	5	4
	915	**842**

30. FINANCE INCOME AND COSTS

	Year ended 31 December 2010	Year ended 31 December 2009
Finance costs		
Imputed interest expense on promissory notes	306	291
Accretion expense	11	18
Interest expense on borrowings	197	324
Other	21	-
	535	**633**
Finance income		
Exchange gain	(23)	(52)
Other	-	(8)
	(23)	**(60)**

(in millions of Russian Roubles)

31. FINANCIAL INSTRUMENTS

Credit risk

Exposure to credit risk

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

		Carrying amount	
	Note	2010	2009
Other long-term receivables	14	2	2
Other long-term receivables from related parties	14	3	6
Cash and cash equivalents	15	650	426
Bank deposits	15	-	62
Trade accounts receivable	16	1,069	947
Other accounts receivable	16	75	53
		1,799	**1,496**

Two of Group's most significant customers, OOO Gazprom Mezhregiongas and OOO Gazprom Komplektasia, accounts for RR 670 and RR 660 of the trade receivables carrying amount as of 31 December 2010 and 2009, respectively.

Impairment losses

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

	Gross amount	Impairment	Gross amount	Impairment
	2010	2010	2009	2009
Not past due	1,116	-	965	-
Past due 0-45 days	-	-	-	-
Past due 46-90 days	-	-	2	-
More than 90 days	71	(43)	199	(166)
	1,187	**(43)**	**1,166**	**(166)**

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

	31 December 2010	31 December 2009
Balance at 1 January	166	171
Increase during the year	19	31
Decrease due to reversal	(83)	-
Amounts written off against trade receivables	(59)	(36)
Balance at 31 December	**43**	**166**

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.

(in millions of Russian Roubles)

31. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

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

31 December 2010

	Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years
Secured and unsecured bank loans	1,747	2,505	195	197	2,113
Finance lease liabilities	43	57	42	15	-
Long-term promissory notes	2,426	2,670	1,643	1,027	-
Trade and other payables	971	971	971	-	-
	5,187	**6,203**	**2,851**	**1,239**	**2,113**

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	-	-
	5,050	**5,879**	**2,319**	**3,560**	-

Currency risk

Exposure to currency risk

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

	Denomination	31 December 2010	31 December 2009
Trade accounts receivable	US dollar	305	171
Cash and cash equivalents	US dollar	3	9
Secured bank loans	EURO	(147)	-
		161	**180**

Sensitivity analysis

As of 31 December 2010, 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 25 higher (2009: RR 14 higher) mainly as a result of foreign exchange gains on translation of US dollar-denominated accounts receivable.

As of 31 December 2010, if the EURO had strengthened by 10% against the Russian rouble with all other variables held constant, net profit and total equity would have been RR 12 lower mainly as a result of foreign exchange losses on translation of EURO-denominated bank loan.

(in millions of Russian Roubles)

31. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

Profile

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

	Carrying amount	
	2010	2009
Fixed rate instruments		
Financial assets	415	289
Financial liabilities	(1,600)	(1,697)
	(1,185)	**(1,408)**
Variable rate instruments		
Financial liabilities	(147)	-
	(147)	-

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.

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:

	31 December 2010		31 December 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Other long-term receivables	5	5	8	8
Trade and other accounts receivable	1,144	1,144	1,000	1,000
Cash and cash equivalents	650	650	426	426
Bank deposits	-	-	62	62
Trade and other payables	(971)	(971)	(228)	(228)
Promissory notes	(2,426)	(2,483)	(3,041)	(2,894)
Finance lease liabilities	(43)	(43)	(84)	(84)
Unsecured bank loans	(1,600)	(1,568)	-	-
Secured bank loans	(147)	(156)	(1,697)	(1,671)
	(3,388)	**(3,422)**	**(3,554)**	**(3,381)**

Interest rates used for determining fair value

	2010	2009
Finance lease liabilities	11.3%	11.3%
Euro denominated bank loan	6.6% - 9.9%	-
Loans and borrowings in roubles	10.7%	14.3%
Promissory notes	6.8% - 9.3%	13.8% - 13.9%

(in millions of Russian Roubles)

32. 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 2010 are detailed below:

	Nature of relationship
OAO Gazprom	Parent company
OOO Gazprom mezhregiongaz	Fellow subsidiary of OAO Gazprom
OOO Factoring Finance	Fellow subsidiary of OAO Gazprom
OAO Kuzbassgazprom	Fellow subsidiary of OAO Gazprom
OOO Vostokresurs	Fellow subsidiary of OAO Gazprom
OOO Aviapredpriyatie Gazpromavia	Fellow subsidiary of OAO Gazprom
OAO Zapadno-sibirskoe rechnoe parohodstvo	Associate of the Group
OAO Gazpromtrans	Fellow subsidiary of OAO Gazprom
OOO Gazprom komplektasia	Fellow subsidiary of OAO Gazprom
OAO Gazpromtrubinvest	Fellow subsidiary of OAO Gazprom
OAO Gazpromneft	Fellow subsidiary of OAO Gazprom
OAO Gazpromneft-ONPZ	Fellow subsidiary of OAO Gazpromneft
OOO Gazpromneft – Vostok	Fellow subsidiary of OAO Gazpromneft

The Group's transactions with state-controlled entities are disclosed in Notes 14, 15, 23, 25 and 27. 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 OAO Gazprom and has a controlling interest (including both direct and indirect ownership) of over 50% in OAO Gazprom.

OAO Gazprom prepares publicly available financial statements.

(in millions of Russian Roubles)

32. RELATED PARTIES (continued)

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

	Year ended 31 December 2010	Year ended 31 December 2009
OAO Gazprom		
Purchase of gas transportation services	1,121	1,018
OAO Gazpromtrubinvest		
Purchase of construction supplies and materials	52	143
OOO Gazprom mezhregiongas		
Sale of gas	5,981	4,674
OAO Gazpromneft		
Sales of methanol	-	87
OAO Gazpromneft-ONPZ		
Sales of methanol	55	-
OOO Gazprom komplektasia		
Sales of methanol	847	722
Sales of inventories	45	28
OAO Gazpromtrans		
Tank rendering	287	174
Purchase of methanol transportation services	140	88
OOO Aviapredpriyatie Gazpromavia		
Purchase of transportation services	111	-
Purchase of other services	10	-
OOO Gazpromneft - Vostok		
Purchase of construction supplies	4	11
Sales of gas condensate transportation services and storage services	25	31
Rendering of car services	-	2

The Group has the following balances with related parties as at 31 December 2010 and 31 December 2009.

Accounts receivable and prepayments

	31 December 2010			31 December 2009		
	Cost	Impairment provision	Carrying value	Cost	Impairment provision	Carrying value
OOO Gasprom mezhregiongaz	330	-	330	231	-	231
OOO Gazprom komplektasia	352	(12)	340	429	(11)	418
OOO Vostokresurs	18	(18)	-	80	(80)	-
OAO Gazprom	4	-	4	4	-	4
OAO Kuzbassgazprom	-	-	-	44	(44)	-
OAO Gazpromtrans	7	-	7	8	-	8
Other	3	-	3	8	(4)	4
	714	**(30)**	**684**	**804**	**(139)**	**665**

(in millions of Russian Roubles)

32. RELATED PARTIES *(continued)*

Accounts payable and accrued charges

	31 December 2010	31 December 2009
OAO Gazprom	16	16
OOO Aviapredpriyatie Gazpromavia	8	-
OOO Vostokresurs	6	6
Other	-	1
	30	**23**

Long-term promissory notes

	31 December 2010	31 December 2009
Long-term promissory notes	2,426	3,041
	2,426	**3,041**

Long-term promissory notes were issued to OAO Gazprom subsidiary OOO Factoring Finance (see Note 18).

Directors' remuneration

The Group paid to members of the Board of Directors and Management Committee salary and bonuses of approximately RR 192 and RR 178 for the years ended 31 December 2010 and 2009, respectively.

33. COMMITMENTS, CONTINGENCIES AND OPERATING RISKS

Taxation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes 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 and substance-based 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 at 31 December 2010 the Group has recorded the provision for contingent tax liabilities for the total amount of RR 31. 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 and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or 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.

33. COMMITMENTS, CONTINGENCIES AND OPERATING RISKS (continued)

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 in the amount of RR 4,511.

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